

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF MASSACHUSETTS

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ROBERT FIREMAN and ANN RAIDER,	)	
	)	
Plaintiffs,	)	
	)	
v.	)	CIVIL ACTION NO. 05-1740MLW
	)	
NEWS AMERICA MARKETING IN-STORE,	)	
INC.,	)	
	)	
Defendant.	)	
_____	)	

**ROBERT FIREMAN AND ANN RAIDER'S MOTION FOR LEAVE TO  
DISCLOSE EXPERTS BEYOND EXPERT DISCLOSURE DATE  
(MEMORANDUM INCORPORATED)**

**i. Introduction**

Pursuant to Fed. R. Civ. P. 26(a)(2), 37(a)(2) and this Court's decision in Alves v. Mazda Motor of America, Inc., 448 F.Supp.2d 285 (D. Mass. 2006), the Plaintiffs Robert Fireman ("Mr. Fireman") and Ann Raider ("Ms. Raider") respectfully seek leave to submit expert reports beyond the Scheduling Order deadline set by the Court for disclosing experts.

The Rules governing the disclosure of experts permits late disclosure where the party proffering the expert, here Mr. Fireman and Ms. Raider, can demonstrate that the late disclosure is either "harmless" or there existed a "substantial justification" for the late disclosure. Given the timing of the expert disclosure relative to the ongoing calendar events in this case, Mr. Fireman and Ms. Raider can demonstrate that their late disclosure is "harmless" as defined by Fed. R. Civ. P. 37(c)(1). Notably, no current trial date has been assigned by the Court and the parties' final pretrial conference has yet to be

scheduled. Defendant News America Marketing In-Store, Inc. ("NAM") has indicated an intent to move for summary judgment, but no briefing schedule has been established. The industry experts who have now been disclosed by Mr. Fireman and Ms. Raider in no way impact upon NAM's proposed summary judgment motion where the motion apparently will be premised upon the language of the parties' Stock Purchase Agreement. Quite clearly, Mr. Fireman and Ms. Raider's expert disclosures will not effect, harm or prejudice NAM's ability to prepare for trial or the general administration of this case going forward.

So too, under Fed. R. Civ. P 37(1) Mr. Fireman and Ms. Raider can demonstrate a "substantial justification" for the delay in designating their expert. Throughout discovery, NAM repeatedly delayed in producing their documents and delayed in producing their witnesses. NAM produced its first witness for deposition on the eve of the discovery expiration date. At the parties' last status conference, the Court remarked that if it were to sanction any party, NAM would be sanctioned for its discovery delays. Prior to rendering his expert opinion, one of Mr. Fireman and Ms. Raider's expert witnesses sought to review the testimony from NAM's witnesses to evaluate the impact, if any, on his opinions. Inasmuch as the first NAM deposition was taken almost two months after the date set for expert disclosure, Mr. Fireman and Ms. Raider could not reasonably provide their expert disclosures by the initial date.

## **ii. Background Facts**

In August of 1999, Mr. Fireman and Ms. Raider, on one hand, and NAM, on the other, finalized a Stock Purchase Agreement whereby NAM purchased the stock in Mr. Fireman and Ms. Raider's company, Consumer Card Marketing, Inc. ("CCMI"). In

connection with the purchase, NAM agreed to commit the resources necessary to operate CCMI in such a way as to permit it to continue its growth and execute its business plan. The purpose of the agreement was to combine CCMI's product line with NAM's sales force and relationships and allow CCMI's business to continue to grow. As part of the contract and based on NAM's stated agreement to commit the resources necessary for CCMI to continue to grow, Mr. Fireman and Ms. Raider agreed to received most of the purchase price through earn-outs based on CCMI Gross Margin as defined in the Stock Purchase Agreement.

Instead, upon the sale of CCMI, the business plan was ignored, promised resources were withheld, and key staff was siphoned off to other aspects of NAM's business. NAM marginalized the role of Mr. Fireman and Ms. Raider in the company, damaged the brand equity and name recognition CCMI had built over eight years, cancelled all trade advertising, failed to provide sales support to grow the business, and failed to fund necessary software development. Predictably, Mr. Fireman and Ms. Raider were unable to meet financial targets all parties had agreed were readily achievable, and Mr. Fireman and Ms. Raider were therefore never paid millions of dollars of the agreed upon purchase price.<sup>1</sup>

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<sup>1</sup> NAM claims that it had the right to take actions that destroyed Plaintiffs' ability to realize the financial benefit of their bargain by virtue of a provision in their asset purchase agreement. The provision states:

It is the buyer's current intention to provide support to the business of the Company by, among other things, (i) utilizing Buyer's sales force in order to promote the sale of the Company's products, (ii) assisting the Company in the creation of long-term relationships with retailers, and (iii) investing in software and hardware as needed to expand the Company's business. Notwithstanding the foregoing, Buyer shall be freed to operate the Company and its Affiliates in its sole and unfettered judgment and Sellers shall have no claim against Buyer in connection therewith as a result of the preceding sentence. Buyer hereby agrees that the direct sales expenses for the first and second Base Earn-Out Periods shall not exceed \$1.0 million and \$1.4 million, respectively, unless otherwise agreed by Buyer, on the one hand, and Fireman and Raider, on the other hand.

### **iii. Procedural History**

After the parties appeared before the Court in May 2006, the Court entered a Scheduling Order to govern the administration of the case. The Order set the following relevant deadlines:

Motions to Amend Pleadings by July 31, 2006  
Automatic Disclosures by June 15, 2006  
Expert Disclosures by March 30, 2006  
Discovery Concludes by May 31, 2007  
Scheduling Conference on June 26, 2007  
Final Pretrial Conference on August 8, 2007  
Trial on August 20, 2007

The Court has been previously made aware of the problems, delays and other issues encountered by Mr. Fireman and Ms. Raider relative to their efforts to undertake discovery in this case. See Fireman and Raider's Motion to Modify Schedule Order, filed with the Court on or about June 8, 2007. In the interest of not repeating matters already addressed to the Court's attention through prior filings, the entire discovery history will not be repeated here and the contents of the Plaintiffs' Motion to Modify Scheduling Order is incorporated herein by reference. In short, NAM did not even begin producing documents until four months after the service of a document request. Depositions did not commence until five months after the initial scheduling request was made, and virtually all of NAM's witnesses were unavailable during the discovery time period. Mr. Fireman and Ms. Raider have been required to travel to New York on multiple occasions for NAM party deposition, most of which have taken place

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This provision, however, does not allow NAM to violate the covenant of good faith and fair dealing. See Speakman v. Allmerica Financial Life Ins., 367 F.Supp.2d 122, 132 (D. Mass. 2005) ("the essential inquiry [in determining whether a breach of the covenant occurred] is whether the challenged conduct conformed to the parties' reasonable understanding of performance obligations, as reflected in the overall spirit of the bargain, not whether the defendant abided by the letter of the contract in the course of performance."); In re Gulf Oil/Cities Tender Offer Litigation, 725 F.Supp. 712, 736 (S.D.N.Y. 1989) ("merely conferring an express power is insufficient to bar consideration of whether the party exercised the power in good faith.")



during the months of June and July, beyond the discovery deadline the Court initially imposed.

At the parties' June 26, 2007 status conference, the Court ordered the remaining depositions to be concluded on or before July 20, 2007 (two days following the only date NAM's final witness was available). The Court also set a status conference for October 4, 2007 at 3:30 pm where the Court will discuss the parties' efforts to settle the case, and if necessary, a summary judgment briefing schedule.

On August 10, 2007, the Plaintiffs disclosed the expert opinion of Carline Thissen and Barry Kotek, industry experts in the loyalty marketing industry field. Ms. Thissen's and Mr. Kotek's expert testimony examines and studies the industry and offers an expert opinion concerning the growth of the frequent shopper card market, and CCMI's likelihood of achieving certain gross sales levels had it been supported by NAM. See Exhibit A. Mr. Fireman and Ms. Raider have also disclosed the expert opinion of David Diamond. See Exhibit B. Mr. Diamond's expert testimony also reviews the loyalty marketing industry and opines upon the growth of the frequent shopper card market, and CCMI's likelihood of achieving certain gross sales levels had NAM supported the company.

#### **iv. Leave To File A Late Expert Report**

The standard by which the Court may permit a party to submit an expert report beyond the scheduling order deadline is well known by the Court as articulated in Alves v. Mazda Motor of America, Inc., 448 F.Supp.2d 285 (D. Mass. 2006). As this Court observed in Alves:

This Rule generally provides for exclusion of a party's experts unless she had "substantial justification" for disclosing them late

or unless her late disclosure was “harmless.” See Fed.R.Civ.P. 37(c)(1). The plaintiff has the burden of proving substantial justification or harmlessness. Saudi v. Valmet-Appleton, Inc., 219 F.R.D. 128, 132 (E. D. Wis. 2003) (“The party to be sanctioned must show that its violation of Rule 26(a) was either ‘substantially justified’ or ‘harmless.’”). In addition to, or in lieu of, exclusion, the court is also authorized to impose “other appropriate sanctions,” including “reasonable expenses” and “attorney’s fees” caused by the late disclosure. Fed.R.Civ.P. 37(c)(1).

Id. at 293.

#### **v. The Late Disclosure Is Harmless**

Given the current procedural posture of this case, Mr. Fireman and Ms. Raider’s disclosure of industry experts at this time is harmless. As noted above, given the unavailability of NAM’s witnesses until very late in the discovery period, four of plaintiffs’ five depositions were taken immediately prior to the close of discovery or after the initial deadline. The Court has yet to set a firm trial date or a pretrial conference date. NAM has announced an intention to move for summary judgment but a briefing schedule has not been adopted or established by the Court. Mr. Fireman and Ms. Raider’s expert witness’ testimony will have no impact on the issues to be presented to the Court at summary judgment briefing as apparently NAM’s summary judgment motion will be premised upon the language of the parties’ Stock Purchase Agreement.

In fact, given the current schedule and the parties October 10, 2007 status conference date, all matters relating to expert testimony can be undertaken and completed (with Court permission) within the next two months and well prior to the October 10, 2007 date. Were the Court to grant leave to submit late expert reports, Mr. Fireman and Ms. Raider have no objection to an expert deposition proceeding immediately or as soon as NAM wishes to proceed. So too, prior to the scheduling conference, NAM has ample time to counter-designate an expert witness if it deems it necessary. This necessarily

cannot impact the summary judgment or trial schedules as these dates have yet to even be established. Unlike the Alves matter, this case is not “one of the of the oldest cases on the court’s docket” and the late expert disclosure will in no way upset or alter any current, in place deadlines designed to bring this matter to a prompt conclusion or the general administration of the case.

**vi. The Late Disclosure Is Substantially Justified**

Given the harmlessness associated with the late disclosure, the Court need not reach the issue of whether the late disclosure was substantially justified. If the Court determines to investigate this factor, it would be proper for the Court to conclude that the late disclosure was substantially justified.

As noted above, the Plaintiffs have diligently sought to pursue discovery in this case only to have time consuming barriers erected. The Plaintiffs, through counsel, have repeatedly attempted to accommodate these delays in an effort to avoid bringing these matters before the Court. These delays however had real consequence. It took Mr. Fireman and Ms. Raider over four months to obtain documents sought pursuant to a valid request. They began the process of seeking to undertake depositions in the beginning of January 2007. NAM’s first witness was available for deposition on May 25, 2007 (the last business day of discovery) and the rest of NAM’s witness were not available until June or July. Unlike the Plaintiff in Alves, this case does not involve an “inexcusable failure” to observe deadlines “and much more.” Id. at 294. In Alves, the Court noted that the Plaintiff missed “many deadlines for expert disclosure,” failed to notice depositions of key witnesses until after the expert disclosure deadline had passed and “misrepresented material facts to the Court in an effort to evade” another pending motion.

Quite transparently, none of these facts are present here.

Mr. Fireman and Ms. Raider have diligently attempted to undertake discovery within the time limits and their efforts were stymied. In hindsight, Mr. Fireman and Ms. Raider should probably have engaged in motion practice and brought these delays to the Court's attention sooner. Instead, Mr. Fireman and Ms. Raider elected to be patient and work with NAM's counsel in the hopes that these issues would be worked out cooperatively without the necessity of the Court's attention, or if Court involvement became necessary, by joint motion.

As a practical matter, NAM's delays impaired Mr. Fireman and Ms. Raider's ability to conclude their expert reports. For much of the discovery period it was not completely clear what the scope of expert testimony should or could be. For instance, it was unclear whether the size and composition of the market for loyalty marketing programs was even controversial. The day before the first discovery deadline, one of NAM's key witnesses Henri Lellouche testified that the loyalty marketing industry consisted of only approximately \$17 million dollars in total sales. If that testimony is credited, it would plainly undermine plaintiffs' damages; the earn-out component of the purchase price would be much smaller. It was only after the deposition of Mr. Lellouche was taken on May 25, 2007 (the last day of discovery) that it became clear that the parties' definition of the loyalty marketing industry differed.

Furthermore, Mr. Diamond requested access to the Defendants' deposition transcripts to have a complete picture of what went wrong with this relationship from both parties' perspectives. Depending on the nature of the opinions rendered, it is fairly typical cross examination to criticize an expert implicitly by pointing out that he or she

considered only half of the story. The delay in producing witnesses prevented any expert from considering NAM's version of the relevant events until after the date initially set by the Court for expert disclosure, and plaintiffs respectfully submit that this is an independent reason to allow this motion.

**vii. Conclusion**

For all the foregoing reasons, plaintiffs request that this Court allow their motion to serve expert reports after the deadline set by the Court. Plaintiffs will make the expert witnesses available for deposition with the Court's permission.

**REQUEST FOR ORAL ARGUMENT**

Plaintiffs respectfully request a hearing on this motion.

ANN RAIDER AND ROBERT FIREMAN,

By their attorneys,

/s/ Charles H. Roumeliotis  
Kevin T. Peters (BBO #550522)  
David H. Rich (BBO #634275)  
Charles H. Roumeliotis (BBO #657553)  
Todd & Weld LLP  
28 State Street  
Boston, MA 02109  
(617) 720-2626

Dated: August 10, 2007

CERTIFICATION PURSUANT TO LOCAL RULES 7.1 and 37.1

I, David H. Rich, hereby certify pursuant to Rules 7.1 and 37.1 of the Local Rules of the United States District Court for the District of Massachusetts that I have made a reasonable and good faith effort to reach agreement with counsel for News America Marketing In-Store, Inc., on the matter that is the subject of this Motion. I specifically emailed Gordon Katz on August 10, 2007, but the parties did not reach a resolution.

/s/ David H. Rich

David H. Rich

CERTIFICATE OF SERVICE

I, Charles H. Roumeliotis, hereby certify that this document filed through the ECF system will be sent electronically to the registered participants as identified on the Notice of Electronic Filing (NEF) and paper copies will be sent to those indicated as non-registered participants on this date

Date: August 10, 2007

/s/ Charles H. Roumeliotis

Charles H. Roumeliotis

# EXHIBIT A



CARLENE THISSEN and BARRY KOTEK  
B&C, LLC (*Previously Retail Systems Consulting*)  
3670 1<sup>st</sup> Avenue SW  
Naples, FL 34117

## **I. COMPLETE STATEMENT OF OPINIONS TO BE EXPRESSED**

It is our opinion that CCMI, more probably than not, would have exceeded \$7.9 million in gross sales in 1999 and \$21.6 million in gross sales in 2000, as reflected in the projection we reviewed (NAM01392), had News America Marketing (NAM) provided CCMI with the sales and marketing support outlined in CCMI's business plan (Exhibit A). Based on our review of the document NAM01392, we believe those numbers were achievable if not conservative, to a reasonable degree of certainty.

That opinion is reinforced by the fact that PreVision, another CRM (Customer Relationship Marketing) company, had sales that were expected to exceed \$25 million in 2000 and that in 1997, AMR Research predicted the global CRM market would expand to \$11.5 billion. (EXHIBIT B page 4). In addition, a review of the Retail Systems Consulting Card-Based Marketing Report (CBM) shows that several large supermarket chains were in the process of implementing their CRM programs in the years 1998 to 2000, representing a substantial potential market for CCMI. (EXHIBIT C).

Between 1998 and 2003, the number of supermarket stores offering Frequent Shopper Programs and the number of consumers using such programs (consumers with at least one frequent shopper card) grew steadily and predictably. Number of stores went from 5,867 in 1997 to 12,849 in 2003. (EXHIBIT D page 9 and EXHIBIT E page 3). Consumers holding at least one frequent shopper card went from 55% in 1997 to 81% of the U.S. population in 2002. (Numbers not available for 2003.) (EXHIBIT F, page 2.)

Between 1998 and 2003, two "big vendors" emerged: News Corp. and Valassis, Inc. Each with about 50% of the FSI coupon market, they both appeared poised to capitalize on investments they were making in electronic marketing companies, part of which was to maximize their existing sales forces that had key contacts with paper coupon decision-makers at CPG manufacturers. A comparison of these two vendors' activities (see II, below) demonstrates the high level of commitment given by Valassis versus the low level of commitment of News Corp.

News America Marketing (NAM) and Valassis' commitments to electronic marketing evolved quite differently. Valassis supported, enhanced and sold its products, while it

appeared that News America Marketing restricted theirs, did not enhance the products and limited funding for marketing and sales efforts.

Retail Systems Consulting's primary consulting client base was vendors of systems and programs to support electronic marketing, companies like CCMI, in addition to some work with grocery retailers and CPG manufacturers. The years 1998 – 2003 were precarious years for small vendors trying to enter the electronic marketing space. Those companies needed deep pockets to sustain them through a lengthy "chicken and egg" scenario in which retailers were not interested in programs that did not have CPG manufacturer support and CPGs were not interested in programs that did not have a substantial installed base of retailers.

With the growth of frequent shopper programs from 1998 – 2003, it is reasonable to assume that, had CCMI been supported by NAM in the way their largest competitor, RMS, was supported by Valassis, CCMI would have sold substantial numbers of retailers on frequent shopper cards, database Market Analysis System (MAS) and analytic capabilities. While we cannot precisely quantify this prediction, we believe that it is probable that CCMI would have exceeded \$7.9 million in gross sales in 2000 and \$21.6 million in gross sales in 2001, had News America Marketing provided CCMI with the sales and marketing support outlined in CCMI's business plan (Exhibit A).

## II. BASIS OF OPINIONS

### A. GROWTH OF MARKET

1. Retail Store Statistics. Source: Retail Systems Consulting and TDLinx. (EXHIBIT D, page 9 and EXHIBIT E, page 3)

	Stores	% of total	ACV%
1997	5,867	19%	17.4%
1998	7,750	26%	22.5%
1999	8,999	30%	NA
2000	10,000	32.6%	38.3%
2001	NA*		
2002	NA*		
2003	12,849	38%	42%

\*statistics not compiled

2. Percent of consumers reporting membership in at least one grocery store frequent shopper program. Source: ACNielsen. (EXHIBIT F, page 2)

1997	55%
1998	66%
1999	70%
2000	74%
2001	78%
2002	81%
2003	NA

## **B. COMPARATIVE ACQUISITION ACTIVITY AND SUPPORT**

1. In 1999, Valassis made several key purchases (EXHIBIT G, *In-Store* Newsletter, November 1999 page 2 and January 2000 page 2.)

- IDS, an online grocery shopping software solution for retailers. Valassis said it would expand the system to include online coupons and CPG incentives.
- Save.com, an internet-based coupon distribution system
- Relationship Marketing Group (RMG), a targeted shopping list of customer-specific offers that would automatically be deducted at checkout with the scanning of the list or the customer's frequent shopper card.
- An unspecified share of RMS, Inc., that marketed the dominant retailer database system, used by over half of the grocery retailers offering frequent shopper programs.

In an interview in the same *In-Store* Newsletter (November 1999, page 2), Valassis' CEO Al Schulz commented on the reason for the purchases:

"We've identified a few key areas of interest to us – Internet, E-commerce, and something we call CARS – Customer Attainment and Retention System. This system will help grocery retailers use their frequent shopper data... to develop stronger relationships and loyalty with their customers.... We're trying to develop each of these businesses independently but with a common architecture."

Schulz also told us in that interview that Valassis planned to spend \$60 million annually on additional new business development related to CARS. He continued to show support in words and actions over the next few years.

- February 2000, RMS announced the release of MarketEXPERT XR (Extended Relational) 1.2, a new, advanced version of the company's software that ran on an NT server. (EXHIBIT G, February 2000, page 1)
- In September, 2000, Valassis announced that it would combine "the technological expertise of RMS with the product and execution capabilities of RMG/Valassis" into a division called VRMS. (EXHIBIT G September 2000, page 1).

- That same month, Valassis announced a purchase of 80% of Prevision Marketing, a customer relationship marketing agency focused on creating comprehensive loyalty-building programs. (EXHIBIT G, September 2000, page 2)
- In December 2000 Valassis told a group of its investors that it saw “the CRM market as a \$120 million revenue opportunity within five years.” (EXHIBIT G, December 2000, page 2)
- In April 2001, Save.com announced an agreement with Brightstreet to provide the operating system for secure promotions on the web. (EXHIBIT G, April 2001, page 3)
- In May, 2001, Valassis announced expenses were up for the first quarter, partially due to the addition of PreVision Marketing employees and sales personnel to SG&A expenses. (EXHIBIT G, May 2001, page 2)
- In August 2002, Valassis increased its ownership in VRMS to 88%. (EXHIBIT G, August 2002, page 4)

Al Schultz said in a press release that the increase of ownership in VRMS “demonstrates to our customers that we’re highly committed to the one-to-one area of our business. We’re very encouraged by the prospects we’re seeing in the usage of grocery frequent shopper data.”

2. In 1999, News America Marketing (NAM) made similar key investments (Exhibits G, January 2000 page 2 and August 1999, page 1).

- 30% interest in planetU, that marketed paperless, internet-delivered coupons that allowed a retailer’s loyalty card members to choose their coupons at home and then have the savings deducted automatically at checkout.
- 22% interest in SoftCard Systems, Inc., with its “smart” loyalty card with a unique ID encoded in a chip. Shoppers inserted cards into shelf dispensers for paperless discounts that would be deducted at checkout.
- Consumer Card Marketing (CCMI), a frequent shopper database company. At that time, CCMI’s Customer Information System (CIS) and Marketing Analysis System (MAS) were highly competitive tools that were beginning to effectively compete with RMS, the dominant industry database vendor.

News America’s announced strategy was that these investments complemented the company’s overall strategy which was “to be a leader in 3-commerce and targeted marketing opportunities while continuing to expand its core business.”

- In August 2000, NAM and planet U announced an agreement with AOL to deliver personalized promotions to AOL’s more than 22 million members. (EXHIBIT G, August 2000, page 1)
- Also in August 2000, SoftCard announced its Rewards Machine would launch at 12 Furr’s Supermarkets in Albuquerque, NM. (EXHIBIT G August 2000, page 1)

- In June 2001 SoftCARD announced it had successfully completed the first test of its SmartSource Rewards Machine. (EXHIBIT G, June 2001, page 3)
- SoftCard announced in July 2001 that it had signed a licensing agreement with Welcome Real-time, a French supplier of software and marketing strategies for smart cards. (EXHIBIT G, July 2001, page 2)

By August, 2001, however, the companies NAM had purchased had almost completely dropped off our radar screen. They no longer exhibited at or attended GEMCON, the Global Electronic Marketing Conference, and later stopped exhibiting at FMI's Markettechnics, the grocery industry's largest technology conference.

### III. QUALIFICATIONS

Retail Systems Consulting offered five different areas of services all related to supermarket electronic marketing. Through these activities, including consulting, a newsletter, a conference, a report on electronic marketing activity and our executive search work, we gained a unique perspective on the industry.

1. Consulting services were the base business and we worked for a wide range of clients in the area of electronic marketing programs. We worked mainly for system and program vendors that supported the retailer programs but also retailers, helping them determine what kinds of programs to run and for CPG manufacturers, educating them on retailer activities. Our clients included many start-ups and smaller companies but also large companies such as AT&T, Hitachi, Siemens Nixdorf, MasterCard and Visa.
2. We offered a monthly industry newsletter called *In-Store*, \$295 per year for twelve monthly issues. Our subscriber base of as many as 300 in some years included retailers, CPG manufacturers, vendors, consultants and investors, all of whom read the newsletter to keep up with the latest information on electronic marketing and other related in-store focused technology. Vendors of systems made it a point to send us information about their products, called to make appointments for us to visit them at trade shows and let us know when they had announcements about new retailers or manufacturer clients. News America Marketing was a subscriber.
3. We ran an annual conference called GEMCON (Global Electronic Marketing Conference.) From 1998 – 2002 the conference was co-produced with Grocery Manufacturers of America (GMA) and Food Marketing Institute (FMI). Our audience of 100 – 150 came to GEMCON to hear what was new in the electronic marketing world and to network with other practitioners. GEMCON included an exhibit area of between 12 – 20 vendors, another way in which we kept up with what was going on in the industry. GEMCON was well known as the conference where vendors who were serious about the electronic marketing business would have an exhibit. News Corp. attended in the early years as did CCMI, but their participation and attendance dropped off beginning in 1999.

4. We compiled and sold the industry's only CBM (Card-Based Marketing) Report to CPG manufacturers, vendors and consultants. This report listed each retailer that had a frequent shopper program, when the program started, how many stores were implemented, the number of cards issued, what database they used, what other vendor technology was used to support their programs, plus other information about the retailers' programs such as how CPG manufacturers could participate.

5. Because of our contacts in the industry, our company offered executive search services, from which we derived yet another perspective on the industry, that of unhappy employees who were looking to change.

Input from the combination of these activities led us to the conclusion that NAM was not enhancing or supporting the sale of the electronic marketing companies' products in which NAM had invested, including CCMI.

#### **IV. THE DATA OR OTHER INFORMATION CONSIDERED** **EXHIBITS TO BE USED AS A SUMMARY OF OR SUPPORT FOR THE** **OPINION**

To prepare this opinion, we consulted GEMCON conference materials, Valassis Form 10-K for 2000; a 2003 copy of the Card-Based Marketing (CBM) Report and selected issues of *In-Store* newsletter of the years 1998 – 2003.

EXHIBIT A. CCMI Business Plan.

EXHIBIT B. Valassis Form 10-K for fiscal year ending December 31, 2000.

EXHIBIT C. A list of grocery retailers with frequent shopper programs as of 2003, many of which were implemented or rolled out between 1998 and 2003. Source: Card-Based Marketing (CBM) Report.

EXHIBIT D. Frequent Shopper Retailer Coverage Analysis by Retail Systems Consulting and TDLinx, presented at GEMCON 2003.

EXHIBIT E. Supermarket CBM Update presented at GEMCON 1999.

EXHIBIT F. ACNielsen's 7<sup>th</sup> Annual Frequent Shopper Survey Update, presented at GEMCON, February 2003.

EXHIBIT G. *In-Store* Newsletters referenced in comments by date and page number.



## V. QUALIFICATIONS (BIOGRAPHIES)

A. Carlene Thissen founded Retail Systems Consulting in 1989. She participated as a guest speaker for industry conferences, meetings and conferences. Ms. Thissen was the editor of In-Store, an industry newsletter and wrote several documents for the Food Marketing Institute (FMI) and the Efficient Consumer Response (ECR) Initiative. She wrote a regular column in Brand Marketing. She also co-authored a book with John Karolefski, editor of Brand Marketing and Supermarket News, titled *Target 2000: The Rising tide of TechnoMarketing*.

Before start-up of RSC, Ms. Thissen was vice president, scan operations at Information Resources, Inc. (IRI), one of the two top scanner-based market research companies in the United States. She directed retailer scan data negotiations, participated in IRI's BehaviorScan panelist program, developed the company's coupon scanning family code file, and worked closely with the GMA/FMI Joint Industry Coupon Scanning Committee.

Prior to joining IRI, Ms. Thissen was project manager for Lucky Stores in California, and was responsible for the implementation of electronic debit and credit card systems, and the planning of UPC scanning for the Gemco department store division.

Ms. Thissen also held the position of the first division electronic systems manager for SuperValu in Minneapolis, and was in charge of retailer implementation of electronic in-store systems, including scanning and ordering equipment. She was promoted to the company's corporate headquarters where she developed automated buying/warehouse receiving systems, represented SuperValu on the ANSI X.12 committee for standardization of purchase order and invoice transmissions, and was involved in the original UCS (Uniform Communications Standards) committee.

In a prior position at Sperry Univac's AccuScan she directed training for retail bookkeepers and managers on some of the first scanning systems installed in the U.S. From there, she was transferred to Minnesota to manage installations for SuperValu Stores.

Ms. Thissen began her career in 1973 at Sweda International, New Jersey -- on the same day the industry announced its choice for a UPC symbol. At Sweda she managed administrative responsibilities for the marketing department, conducted cashier training and wrote the initial documentation for the Sweda Systems.

Ms. Thissen holds a B.A. in Business Administration from the College of St. Catherine in St. Paul, Minnesota, and a Master's in Latin American History from Florida International University.



Consulting experience for Carlene at Retail Systems Consulting includes the following:

- Participated in the UCC's first coupon coding seminars for manufacturers.
- Early study for major coupon clearinghouse on retailer preparedness for coupon scanning
- Consulted with Catalina's Electronic Coupon Clearing product from its inception to its closing.
- Conducted the industry study on EAN-99 in-store coupon code.
- Participated in the industry study for the UCC/EAN 128 coupon extended code.
- Conducted the industry study on family code 992 for validation bypass.

B. Barry J. Kotek joined Retail Systems Consulting in 1994 as managing partner. He managed RSC clients in the U.S., Europe, and Asia. Mr. Kotek was the company's lead consultant in the areas of strategic planning, management consulting, investment counseling, and executive search programs. He was also responsible for overall management of the company.

Before joining Retail Systems Consulting, Mr. Kotek was vice president for **Chiquita Brands, Inc.** He was most recently second in command of the Latin American region based in Costa Rica, with an operating budget of over \$330 million and 16,000 employees. Earlier, he was Country Manager for Chiquita Indonesia, where he was responsible for developing a 20,000-acre, \$150 million banana plantation in Sulawesi. He negotiated a joint venture company agreement with a local company, hired senior staff, and negotiated investment incentives from the Indonesian Government.

Prior to Chiquita, Mr. Kotek worked 13 years for **Scott Paper Company**. His positions included: Managing Director, Japan; President Director, Indonesia; and Director, Belgium. As managing director, Japan, he was responsible for Scott's 50:50 joint venture company with sales of \$270 million and 600 employees. As president director in Indonesia, he was responsible for a \$700 million project to build a Eucalyptus plantation and pulp mill in Iran Jaya. He negotiated a joint venture agreement and received Governmental and local approvals; supervised project planning; hired and trained local staff; and negotiated the sale of Scott's shares to its partner.

In Belgium, Mr. Kotek was responsible for developing and implementing growth strategies in countries where Scott did not have an operation. He had direct line responsibility for export sales from the parent company and 15 operating companies in 65 countries worldwide. He improved total export sales by over 200% and profit by 250% in three years. Initially, with Scott, Mr. Kotek was the director of the Wood Products Division.

Earlier positions included assistant director for **Rayonier Canada Ltd.**, where he was responsible for the sales, production, and capital planning for the Wood Products Division. He served as general manager for the completion and start-up of a \$23

million sawmill expansion project. The mill start-up exceeded "learning curve" expectations by 30%. He also developed an export sales program that improved earnings by \$2 million annually.

Earlier in his career, Mr. Kotek was a capital and project planning analyst for ITT Rayonier in New York. He also worked in a number of operations positions for A&P while attending school.

Barry Kotek has an undergraduate degree and 3 advanced degrees from the University of Maine, one of which is an MBA. He also holds a degree in marketing management from Columbia University Graduate School of Business.

## **VI. LIST OF RELEVANT PUBLICATIONS**

Carlene Thissen researched and wrote the following for the Food Marketing Institute (FMI):

- 1990 - *Perspectives on Electronic Marketing* – the first guide on Electronic Marketing in the supermarket industry.
- 1991 – *Front-End Electronic Marketing* – a primer for retailers
- 1995, 97, 2001 - *Coupon Scanning: How to Get Started* (original and updates)
- 1990 - *Scan Data Quality*
- 1994 - *Price Verification*
- 1997 - *Guide to Scanning* – Updated Edition
- 2004 - *Electronic Promotions*

1993 – 2006 – Monthly newsletter, *In-Store*, that sold for \$295 per year.

2001 – 2003 – Regular column in *Brand Marketing Magazine*

1998 – *Target 2000: The Rising tide of TechnoMarketing*. Book on the history and projected future of electronic marketing, co-authored with John Karolefski.

## **VII. COMPENSATION**

\$300 per hour.

## **VIII. CASES TESTIFIED OR DEPOSED IN THE LAST FOUR YEARS**

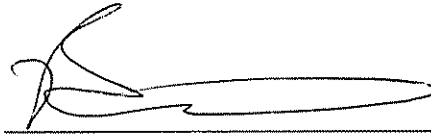
Expanse Networks v. Catalina Marketing Group – 2004 – case settled largely based on materials and reports we provided.

Respectfully submitted,



Carlene A. Thissen

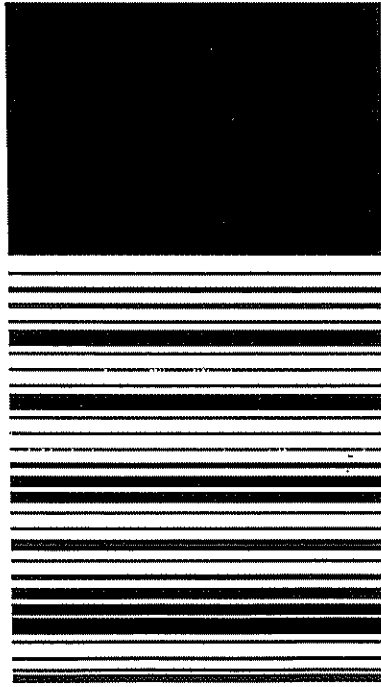
8/9/07  
Date



Barry J. Kotek

8/9/07  
Date

# EXHIBIT A



# Consumer Card Marketing, Inc. Presentation Materials August, 1995

Vol. #1  
No cover production

10-36-95  
No schematic page  
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Consumer Card Marketing, Inc.  
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- II. Strategic Opportunity
- III. Overview of Services
- IV. Competitive Advantage
- V. Management
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- VII. Financial Projections
- VIII. Articles and Related Literature



## Introduction

Consumer Card Marketing, Inc. (CCMI), is an entrepreneurial database marketing and management company that:

- I. Builds customer databases for its retailers through proprietary card-based programs***
- II. Manages a unique warehouse of consumer purchase data on behalf of its clients***
- III. Markets this consumer purchase data by:***

Developing targeted marketing programs for its clients

Selling access to customer data to consumer goods manufacturers and others



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data processing overview



## Introduction

CCMI has established itself nationwide as:

- ♦ A pioneer in the development of card based marketing programs
- ♦ A provider of *customized* marketing programs for *retailers* and *consumer goods manufacturers*
- ♦ A creator of *merchandising partnerships* between *retailers* and *consumer goods manufacturers*
- ♦ A pioneer in the development of marketing programs linking purchase data to household data
- ♦ A leading edge developer of innovative software systems for *data storage analysis and reporting*



## Introduction

Recent accomplishments have resulted in significant momentum:

- ♦ Generated revenues exceeding \$1,000,000 in both 1994 and 1995 with limited staff
- ♦ Repeat business from current customers
- ♦ Expanded marketing effort to other supermarkets
- ♦ Translated supermarket programs to other channels of distribution
- ♦ Developed “Best of Breed” hardware and software for CCMI’s Data Warehouse

## Introduction

### The Opportunity

Retailers are moving to card programs and database marketing to be competitive. CCMl is well positioned to capture significant business in this industry.

CCMl requires \$1.5 million of equity capital to capitalize on this great opportunity as set forth in this presentation

Projected revenues by year five exceed \$73 million.

CCMl is well-positioned for the future:

- ♦ Committed, knowledgeable management team
- ♦ Expertise and know-how to succeed
- ♦ Established relationships with retailers and consumer goods manufacturers
- ♦ Established and proven competitive advantage



## Introduction

### **Capital Requirement and Preliminary Use of Proceeds**

- ♦ Targeted first round financing: \$1,500,000
- ♦ \$800,000: Fund Year One interim cash deficit; provide reserve for Year Two
  - Working capital requirements
  - New hires
  - Aggressive new business development
  - Promotion material
  - Labor, maintenance and programming
- ♦ \$500,000: Capital expenditures for data warehouse
  - Computer, storage, and networking hardware
  - Hardware and software for systems and controls
  - Software licensing fees and related costs (contract programming)
- ♦ \$200,000: Partially refund founders' advances



## Introduction

### Consolidated Statement of Operations

	1996	1997	1998	1999	2000
Database Creation	2,260,000	4,520,000	4,520,000	5,650,000	5,650,000
Database Management	842,317	2,435,117	3,468,390	5,041,437	6,444,075
Database Marketing	<u>1,449,000</u>	<u>9,053,996</u>	<u>24,209,996</u>	<u>46,588,000</u>	<u>61,876,000</u>
Total Revenues	4,551,317	16,009,113	32,198,386	57,279,437	73,970,075
Cost of Services	<u>2,117,280</u>	<u>8,009,284</u>	<u>17,863,267</u>	<u>31,954,583</u>	<u>41,190,467</u>
Gross Profit	2,434,037	7,999,829	14,335,119	25,324,854	32,779,608
%	53.5%	50%	44.5%	44.2%	44.3%
SG&A	<u>3,179,602</u>	<u>3,952,654</u>	<u>5,058,113</u>	<u>5,534,572</u>	<u>6,036,819</u>
Operating Income (before taxes)	(745,565)	4,647,175	9,277,006	19,790,282	26,742,789
%	(16.4%)	25.3%	28.8%	34.6%	36.2%

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## Strategic Opportunity





## Strategic Opportunity: Overview of Important Retailer Trends

- ♦ **Competition has intensified for retailers**
  - Grocers are seeking to establish a competitive advantage
  - Consumer loyalty has become a critical issue
- ♦ **Point of Sale (POS) Equipment now includes scanners and card readers**
  - Banks drove Debit and Credit to POS
  - Check authorization going on-line
- ♦ **Grocers replacing old check cashing cards with plastic magnetic striped ID cards**
  - Allows for on-line check authorization
  - Allows for Electronic Funds Transfer (EFT)
- ♦ **Results of new card issuance and new POS technology**
  - Database of current shoppers
  - Ability to capture data per cardholder
    - Dollars spent
    - Frequency of visits
    - Actual products in market basket
- ♦ **Retailer MIS are not conversant in products sold per basket or per customer**
  - Historically tracks only:
    - Product movement
    - Total dollars spent



## Strategic Opportunity: Retailer Needs

Retailers need to use databases more effectively in their marketing:

- ♦ Utilize consumer data to learn more about customers
- ♦ Create a unique point of difference
  - continuity/loyalty
  - frequent shopper
  - customer retention
- ♦ Process data into format for segmentation, analysis, and marketing efficiently and cost effectively
- ♦ Utilize card programs to improve image, sales, and profits

## **CCMI Products and Services Meet These Retailer Needs**



## Strategic Opportunity: Benefits to Retailers

CCMI's retailer clients derive the following benefits from CCMI's programs

- ♦ Superior chain differentiation in a competitive environment
- ♦ New strategic alliance with packaged goods manufacturers
- ♦ New source of income to offset the cost of card programs and technology:
  - Advertising/promotional dollars, exclusive of current trade allowance from manufacturers
  - Database marketing income
  - Income from the sale of benefits and services
  - Income from increased store loyalty (traffic)
  - Increased sales and profits
  - Programs are offered under the retailer's own name
  - Retailers have flexibility in program design
  - Customer intimacy: programs help retailers know and understand their customers



## Strategic Opportunity: Consumer Goods Manufacturer Needs

Consumer goods manufacturers are eager to use consumer data:

- ♦ Need for more effective advertising and promotions
  - Conventional media and promotion techniques are wasteful, ineffective, and expensive
  - Conventional list sources are less efficient
- ♦ Budgets for Direct Marketing significantly increasing
- ♦ Card-based consumer data is attractive:
  - Quality source of names
  - Frequently updated
  - Analysis based upon actual performance
  - Higher coupon and sample redemption sales
  - Strengthen retailer relationships
- ♦ Shopper loyalty program support will build stronger long term relationship
  - Between the customer, retailer, and the brand
  - Integrated promotional tie-in opportunities

**CCMI's database will represent a resource never before available.**



## Strategic Opportunity: Benefits to Consumer Products Manufacturers

Consumer goods manufacturers derive the following benefits from CCMI programs:

- ♦ Markedly increase effectiveness of promotional spending
- ♦ Development and execution of rapid, highly targeted programs
- ♦ Enable manufacturers to track response rates and adjust programs accordingly
- ♦ Database provider and information manager
  - Quality source of names
  - Analysis based on actual performance
- ♦ Higher coupon and sample redemption rates
  - Efficiently increase market share and sales
- ♦ Strengthened retailer relationship
  - Integrated promotion and tie-in programs
  - Relationship marketing
- ♦ Store frequency club sponsorship opportunities



## Summary of Strategic Opportunity: Consumer Needs

Consumers have embraced card-based programs:

- ♦ Positively pre-disposed to new card programs
  - Airline and Bank programs well received
- ♦ Consumers enjoy receiving discounts
  - Frequent Shopper promotions
  - “The more you shop, the more you save”
  - Frequency based rewards
- ♦ Consumers display loyalty when they are made to feel important
  - Their own card
  - Sweepstakes
  - Access to enhancements: travel, telephone
  - Personalized communication
- ♦ Consumers appreciate
  - Faster checkout lanes
  - Alternative payment options
  - Electronic Discounts/Paperless Coupons
  - Special Savings

**CCMI's range of card-based programs allow retailers to become more important to their customers**

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## Overview of CCM's Services



## Overview of CCMi Services

CCMI offers four groups of integrated database management and marketing services:

### **I. Database Creation / Building the Consumer Database**

- ♦ Design and implement the customer enrollment process
- ♦ Process the customer application information
- ♦ Manufacture and deliver the proprietary cards/carriers and related products

### **II. Database Management / The CCMi Warehouse Solution**

- ♦ Create and manage the customer information file system
- ♦ Process retailer raw transaction data into customer relational database
- ♦ Warehouse customer purchases for analysis and reporting
- ♦ Provide easy access to stored data





## Overview of CCM Services

### III. Database Marketing / Use of Unique and Dynamic Consumer Data

- ♦ Develop and execute retailer marketing programs utilizing the data
  - Frequent Shopper/Loyalty Program
  - Targeted promotions
  - Co-branded Credit Card Program
- ♦ Design and execute database marketing programs for consumer goods manufacturers to access retailer databases
  - List sales (access to databases)
  - Cooperative targeted mailings
  - Research

### IV. Marketing and Consulting Services

- ♦ Marketing Strategy
- ♦ Project Management
- ♦ VAR



## Overview of CCMI Services

### **I. Database Creation / Building the Consumer Database**

CCMI provides all the necessary card products and services for retailer clients to build card programs from which consumer databases are created. CCMI then develops customized revenue-generating marketing programs for its clients utilizing these databases.

Insert schematic



## Overview of CCMI Services

### ♦ **CCMI's Card Introductory Program**

#### • **Card Products Sales**

CCMI, through selected vendors, provides first-quality card and related materials and services at highly competitive rates. These products include applications, cards, carriers, envelopes, card personalization - encoding, embossing, and ultragraphics

#### • **Electronic Customer File Creation**

- Data entry of shopper applications
- Create the electronic customer database
- Provide ongoing maintenance and refreshment of consumer files

#### • **Unique Revenue-Generating Programs**

- Sale of survey data captured on or with applications
- Advertising and promotional offer on cards, carriers, or applications

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## Overview of CCMI Services

### Projected Revenue from Card Introductory Programs

	1996	1997	1998	1999	2000
♦ Card Products	720,000	1,440,000	1,440,000	1,800,000	1,800,000
♦ Data Entry	480,000	960,000	960,000	1,200,000	1,200,000
♦ Data Sales	700,000	1,400,000	1,400,000	1,750,000	1,750,000
♦ Advertising/Promotions	<u>360,000</u>	<u>720,000</u>	<u>720,000</u>	<u>900,000</u>	<u>900,000</u>
Totals	2,260,000	4,520,000	4,520,000	5,650,000	5,650,000
% of Total Sales	49.7%	28.2%	14.0%	9.9%	7.6%



## Overview of CCMI Services

### II. Database Management/The CCMI Data Warehouse Solution

Database Management is the data processing backbone of database marketing. CCMI efficiently and cost effectively processes market basket data by consumer into a usable, interactive database warehouse.

- ♦ **CCMI's Customer Information System (CIS)**
  - Formulates the customer database files
  - Provides ongoing updates and deletions
  - Continually monitors database against negative customer information
  - Updates change of address corrections
  - Provides ongoing reports to retailer
  - Provides accurate mailing list of active customers at any time

## Overview of CCMI Services

### Retailer Data Warehouse

- ♦ CCMI's Data Warehouse will contain ACTUAL purchase behavior by household for multiple retailers. It will be refreshed on a regular basis with new and valuable data. This database will track results of promotions more efficiently than ever before possible.
- ♦ CCMI's proprietary data warehouse is designed to:
  - Receive raw transaction POS data tapes containing various data elements, including customer card number, UPC products purchased, coupon redeemed, dollars spent, and product department
  - Consolidate files by customer and transaction
  - Store customer purchase behavior and demographic profile in data warehouse for segmentation and reporting of data
  - Provide clients access to data on-line
  - Provide clients with a transaction reports



## Overview of CCMI Services

### **CCMI's Database Management Services Offer Retailer Clients the Following Benefits:**

- ♦ Supports CCMI's *Total Turnkey Solution*
- ♦ Meets existing need for contract data management services
- ♦ Provides cost savings and headache minimization
- ♦ Creates low-cost advantage
- ♦ Provides database information and analysis
- ♦ Enables better management of stores and promotions
- ♦ Makes marketing dollars more effective



## Overview of CCMi Services

### Projected Revenue from Database Management

	1996	1997	1998	1999	2000
♦ CIS	163,146	468,450	655,890	970,604	1,177,408
♦ Database Warehouse Solution					
• Set-up	300,000	450,000	450,000	600,000	600,000
• Ongoing	<u>379,171</u>	<u>1,516,667</u>	<u>2,362,500</u>	<u>3,470,833</u>	<u>4,666,667</u>
Totals	842,317	2,435,117	3,468,390	5,041,437	6,444,075
% of Sales	18.5%	15.2%	10.8%	8.8%	8.7%





## Overview of CCMI's Services

### III. Database Marketing / Use of Unique and Dynamic Consumer Data

#### ♦ Develop and execute retailer marketing programs utilizing the data

CCMI plans to use the data to assist retailers with development of effective marketing and shopper loyalty programs. Customer activation, usage, retention, reward, or promotion programs will be customized and tested.

Programs will be designed to:

- Resell lost shoppers
- Retain existing shoppers
- Create cross sale opportunities between departments in-store
- Increase spending of best customers
- Motivate average customers to be good customers



## Overview of CCMI Services

Retailer Database Marketing Programs will include:

- Loyalty and continuity programs
- Frequent shopper reward programs
- Co-Branded Credit Card programs
- Targeted promotional magazines
- Retailer sales incentive programs
- Enhancement products
- Promotion research



## Overview of CCMi Services

### ♦ **Data Sales to Consumer Goods Manufacturers**

Database Marketers, such as Donnelly, Polk, and others gather household information from surveys, census, warranty cards, etc. This data is compiled from what people say they do. CCMi's database is a compilation of consumer's actual purchases. While these other databases turn over seven times a year, CCMi's database will be new every week and we project CCMi's data should turn 10 to 15 times per record per year.

The specific product sales may vary but in general be in three categories:

- **List Sales**
  - Manufacturers purchase the right to access by mail specific households
  - Manufacturers will only be sold access to the data through CCMi or fiduciary mail houses
- **Cooperative sales events**
  - Manufacturers seek to access specific households in a shared cooperative envelope or magazine which may be designed by CCMi for specific retailers or groups of retailers
- **Research**
  - Manufacturers will be charged for research and/or monitoring of particular purchase behavior



## Overview of CCMI Services

### **IV. Marketing and Consulting Services**

CCMI has established itself as a national database marketing expert with specialized experience and expertise in all facets of card-based marketing programs.

CCMI provides retailers, associations and third parties consulting services for:

- Marketing Strategy
- Project Management (design, development, implementation and analysis)
- VAR Agreements

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## Overview of CCMI Services

### Database Marketing Revenue and Sales Projection

	1996	1997	1998	1999	2000
♦ Data Sales -- Manufacturers	480,000	3,000,000	10,800,000	25,200,000	34,200,000
♦ Retailer Programs	425,000	4,949,996	11,849,996	19,600,000	25,500,000
♦ Marketing and Consulting	<u>544,000</u>	<u>1,104,000</u>	<u>1,560,000</u>	<u>1,788,000</u>	<u>2,176,000</u>
Total	1,449,000	9,053,996	24,209,996	46,588,000	61,876,000
% of Total Sales	31.8%	56.6%	75.2%	81.3%	83.7%

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## Competitive Advantage



## Competitive Advantage

- ◆ Competitors, such as Catalina Marketing, have aligned themselves with consumer goods manufacturers. CCMI has aligned itself with retailers. This strategic position will be instrumental in creating the necessary trust to hold retailers' customer files and data.
- ◆ Companies, such as Vision Value/APT, promote their brand name. CCMI is transparent to the consumer, assisting each retailer with his proprietary branded program. CCMI's programs are implemented on each retailer's own POS equipment. Unlike our competition, we do not require our clients to purchase or lease proprietary equipment and software. CCMI's programs work within each retailer's technological capabilities.
- ◆ CCMI's Data Warehousing Solution incorporates all the database management services required by retailers to do effective database marketing. There are other companies, such as Retail Marketing Systems (RMS), that license proprietary software that allows retailers to process their data into customer files and specific reports. This system is not Windows-based, has no open software architecture, and requires special programming for ad hoc queries or deviations. Retailers utilizing this product are required to invest substantial monies in hardware and labor to operate the system. CCMI's Data Warehouse is Windows-based, open architecture with an analytical software tool which allows for open access to data in a variety of requested formats. All of the data is processed, turnkey at CCMI's facilities. Retailers with Client Servers can access the warehouse at any time.



## Competitive Advantage

- ♦ CCMI's execution techniques and revenue producing program elements are unique to CCMI. There are companies, such as DCI Marketing and Market Imaging, that are plastic card manufacturers now trying to be database managers and marketers. Notwithstanding, even CCMI's card product prices have been significantly lower.
- ♦ CCMI is rightly perceived as a marketing company. CCMI's executives have supermarket experience and truly understands its issues.
- ♦ CCMI's Database Warehouse is unsurpassed in price and performance. CCMI's analytical tool set makes this valuable data available to everyone from supermarket executives to store managers, so they can do a better job of understanding their customers and running their business.
- ♦ CCMI has established its relationships in the consumer goods manufacturer world. These relationships will bring the necessary financial support for successful ongoing marketing with our retailer clients.



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## Management

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## Management

- ♦ Senior Management Team
  - Supermarket experience
  - Consumer goods experience
  - Electronic banking experience
  - Marketing experience
  - Credit Card marketing experience
  - Entrepreneurial experience

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## Summary



## Summary

- ♦ CCMI advantage:
  - Seasoned experience in all aspects of card products and services
  - Seasoned experience in all aspects of database marketing programs
  - Established relationships with packaged goods manufacturers that desire access to this new source of powerful data
  - Established credibility with retailers as a result of proven performance
  - Developed the CCMI Database Warehouse -- a low cost, open architecture system to segment and analyze large databases
  
- ♦ CCMI's Database Warehouse will consolidate household-specific purchase data:
  - The "Holy Grail of Information" for targeting by consumer goods manufacturers
  - The foundation of effective marketing programs for retailers



- ♦ CCM's card-based programs and services possess both cost and efficiency advantages:
  - Revenue-generating programs
  - Minimal up-front development costs
  - Low incremental card and application costs
  - Low cost data processing
  - No hardware investment required
  - High performance and reliability
  - Easy program expansion
  - Validates its business concept successfully
  - Establishes business and sales opportunities

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## Financial Projections



## CONSUMER CARD MARKETING, INC.

## Forecast

	YEAR 1	%	YEAR 2	%	YEAR 3	%	YEAR 4	%	YEAR 5	%
INCOME STATEMENT:										
REVENUE										
IMPLEMENTATION	\$3,468,000	43.0%	\$6,528,000	28.8%	\$9,192,000	27.2%	\$11,664,000	27.3%	\$13,200,000	23.3%
DATABASE MANAGEMENT	1,074,500	13.3%	2,851,000	12.6%	4,976,000	14.7%	7,488,000	17.5%	10,022,500	17.7%
CONSULTING/MARKETING PROGRAMS	3,531,400	43.7%	13,274,000	58.6%	19,635,200	58.1%	23,622,200	55.2%	33,309,000	58.9%
TOTAL REVENUE	8,073,900	100.0%	22,653,000	100.0%	33,803,200	100.0%	42,774,200	100.0%	56,531,500	100.0%
COST OF GOODS										
IMPLEMENTATION	2,601,000	32.2%	4,896,000	21.6%	6,894,000	20.4%	8,748,000	20.5%	9,900,000	17.5%
DATABASE MANAGEMENT	331,525	4.1%	811,325	3.6%	1,345,075	4.0%	1,962,225	4.6%	2,589,875	4.6%
CONSULTING/MARKETING PROGRAMS	2,067,250	25.6%	8,105,000	35.8%	12,014,000	35.5%	14,160,500	33.1%	19,719,000	34.9%
TOTAL	4,999,775	61.9%	13,812,325	61.0%	20,253,075	59.9%	24,870,725	58.1%	32,208,875	57.0%
GROSS PROFIT	3,074,125	38.1%	8,840,675	39.0%	13,550,125	40.1%	17,903,475	41.9%	24,322,625	43.0%
SALES & MARKETING	1,144,500	14.2%	2,235,600	9.9%	3,034,000	9.0%	3,824,188	8.9%	5,148,766	9.1%
GENERAL & ADMINISTRATIVE	975,091	12.1%	1,504,097	6.6%	2,198,477	6.5%	3,095,878	7.2%	4,019,657	7.1%
PRE TAX INCOME	954,534	11.8%	5,100,978	22.5%	8,317,648	24.6%	10,983,410	25.7%	15,154,203	26.8%
PROVISION FOR INCOME TAXES	419,995	5.2%	2,244,430	9.9%	3,659,765	10.8%	4,832,700	11.3%	6,667,849	11.8%
NET INCOME	\$534,539	6.6%	\$2,856,547	12.6%	\$4,657,883	13.8%	\$6,150,710	14.4%	\$8,486,354	15.0%

CONFIDENTIAL INFORMATION

CONSUMER CARD MARKETING, INC.  
SUMMARY OF SG&A EXPENSES

Forecast

	YEAR 1				YEAR 2				YEAR 3				YEAR 4				YEAR 5			
	Q1	Q2	Q3	Q4	TOTAL	Q5	Q6	Q7	Q8	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL
<b>SALES &amp; MARKETING:</b>																				
<b>TARGETS</b>	\$120,000	\$120,000	\$120,000	\$120,000	\$450,000	\$240,000	\$240,000	\$300,000	\$330,000	\$1,110,000	\$1,110,000	\$1,110,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000
SALARIES	\$90,000	\$120,000	\$120,000	\$120,000	\$450,000	\$240,000	\$240,000	\$300,000	\$330,000	\$1,110,000	\$1,110,000	\$1,110,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000
IMPLIED HEADCOUNT	3.0	4.0	4.0	4.0	3.8	8.0	8.0	10.0	11.0	9.3	9.3	9.3	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
PAYROLL TAXES	\$8,100	\$10,800	\$10,800	\$10,800	\$40,500	\$21,600	\$21,600	\$27,000	\$29,700	\$99,900	\$99,900	\$99,900	\$162,000	\$162,000	\$162,000	\$162,000	\$162,000	\$162,000	\$162,000	\$162,000
BENEFITS	\$10,800	\$14,400	\$14,400	\$14,400	\$54,000	\$28,800	\$28,800	\$36,000	\$39,600	\$133,200	\$133,200	\$133,200	\$216,000	\$216,000	\$216,000	\$216,000	\$216,000	\$216,000	\$216,000	\$216,000
T & E	\$62,500	\$62,500	\$62,500	\$62,500	\$250,000	\$93,750	\$93,750	\$93,750	\$93,750	\$375,000	\$375,000	\$375,000	\$563,436	\$563,436	\$563,436	\$563,436	\$563,436	\$563,436	\$563,436	\$563,436
PROFESSIONAL SVCS	\$12,500	\$12,500	\$12,500	\$12,500	\$50,000	\$16,875	\$16,875	\$16,875	\$16,875	\$67,500	\$67,500	\$67,500	\$112,500	\$112,500	\$112,500	\$112,500	\$112,500	\$112,500	\$112,500	\$112,500
TRADE SHOWS & RELATED	\$25,000	\$25,000	\$25,000	\$25,000	\$100,000	\$37,500	\$37,500	\$37,500	\$37,500	\$150,000	\$150,000	\$150,000	\$225,000	\$225,000	\$225,000	\$225,000	\$225,000	\$225,000	\$225,000	\$225,000
ADVERTISING / P/R	\$12,500	\$12,500	\$12,500	\$12,500	\$50,000	\$25,000	\$25,000	\$25,000	\$25,000	\$100,000	\$100,000	\$100,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000
PRESENTATION MATERIALS	\$12,500	\$12,500	\$12,500	\$12,500	\$50,000	\$25,000	\$25,000	\$25,000	\$25,000	\$100,000	\$100,000	\$100,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000
OTHER / MISCELLANEOUS	\$25,000	\$25,000	\$25,000	\$25,000	\$100,000	\$30,000	\$30,000	\$30,000	\$30,000	\$120,000	\$120,000	\$120,000	\$180,000	\$180,000	\$180,000	\$180,000	\$180,000	\$180,000	\$180,000	\$180,000
SUB TOTAL	\$258,900	\$295,200	\$295,200	\$295,200	\$1,144,500	\$513,525	\$513,525	\$566,125	\$622,425	\$2,235,600	\$2,235,600	\$2,235,600	\$3,034,000	\$3,034,000	\$3,034,000	\$3,034,000	\$3,034,000	\$3,034,000	\$3,034,000	\$3,034,000

GENERAL & ADMINISTRATIVE:

<b>TARGETS</b>	\$50,000	\$50,000	\$50,000	\$50,000	\$200,000	\$50,000	\$50,000	\$50,000	\$50,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
SALARIES	\$100,000	\$100,000	\$100,000	\$100,000	\$400,000	\$150,000	\$150,000	\$170,000	\$190,000	\$660,000	\$660,000	\$660,000	\$1,430,000	\$1,430,000	\$1,430,000	\$1,430,000	\$1,430,000	\$1,430,000	\$1,430,000	\$1,430,000
IMPLIED HEADCOUNT	8.0	8.0	8.0	8.0	8.0	12.0	12.0	13.6	15.2	13.2	13.2	13.2	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8
PAYROLL TAXES	\$9,000	\$9,000	\$9,000	\$9,000	\$36,000	\$13,500	\$13,500	\$15,300	\$17,100	\$59,400	\$59,400	\$59,400	\$128,700	\$128,700	\$128,700	\$128,700	\$128,700	\$128,700	\$128,700	\$128,700
BENEFITS	\$12,000	\$12,000	\$12,000	\$12,000	\$48,000	\$18,000	\$18,000	\$20,400	\$22,800	\$79,200	\$79,200	\$79,200	\$171,600	\$171,600	\$171,600	\$171,600	\$171,600	\$171,600	\$171,600	\$171,600
PROFESSIONAL SVCS	\$10,000	\$10,000	\$10,000	\$10,000	\$40,000	\$11,000	\$11,000	\$11,000	\$11,000	\$44,000	\$44,000	\$44,000	\$53,240	\$53,240	\$53,240	\$53,240	\$53,240	\$53,240	\$53,240	\$53,240
RENT & RELATED	\$36,000	\$36,000	\$36,000	\$36,000	\$144,000	\$54,000	\$54,000	\$54,000	\$54,000	\$216,000	\$216,000	\$216,000	\$337,500	\$337,500	\$337,500	\$337,500	\$337,500	\$337,500	\$337,500	\$337,500
TELEPHONE	\$13,250	\$13,250	\$13,250	\$13,250	\$53,000	\$19,875	\$19,875	\$19,875	\$19,875	\$79,500	\$79,500	\$79,500	\$178,875	\$178,875	\$178,875	\$178,875	\$178,875	\$178,875	\$178,875	\$178,875
OFFICE EXPENSE	\$15,000	\$15,000	\$15,000	\$15,000	\$60,000	\$22,500	\$22,500	\$22,500	\$22,500	\$90,000	\$90,000	\$90,000	\$135,000	\$135,000	\$135,000	\$135,000	\$135,000	\$135,000	\$135,000	\$135,000
OFFICE EQUIPMENT	\$3,000	\$3,000	\$3,000	\$3,000	\$12,000	\$4,500	\$4,500	\$4,500	\$4,500	\$18,000	\$18,000	\$18,000	\$27,000	\$27,000	\$27,000	\$27,000	\$27,000	\$27,000	\$27,000	\$27,000
LEGAL & ACCOUNTING	\$18,750	\$18,750	\$18,750	\$18,750	\$75,000	\$28,125	\$28,125	\$28,125	\$28,125	\$112,500	\$112,500	\$112,500	\$168,750	\$168,750	\$168,750	\$168,750	\$168,750	\$168,750	\$168,750	\$168,750
T & E	\$7,500	\$7,500	\$7,500	\$7,500	\$30,000	\$11,250	\$11,250	\$11,250	\$11,250	\$45,000	\$45,000	\$45,000	\$67,500	\$67,500	\$67,500	\$67,500	\$67,500	\$67,500	\$67,500	\$67,500
DEPRECIATION & AMORTIZATION	\$7,979	\$11,818	\$11,818	\$11,818	\$51,059	\$16,479	\$16,479	\$17,086	\$17,568	\$68,095	\$68,095	\$68,095	\$73,523	\$73,523	\$73,523	\$73,523	\$73,523	\$73,523	\$73,523	\$73,523
INTEREST (NOT ON BANK DEBT)	\$250	\$250	\$250	\$250	\$1,000	\$275	\$275	\$275	\$275	\$1,100	\$1,100	\$1,100	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200
TAXES (OTHER)	\$6,250	\$6,250	\$6,250	\$6,250	\$25,000	\$7,813	\$7,813	\$7,813	\$7,813	\$31,250	\$31,250	\$31,250	\$46,875	\$46,875	\$46,875	\$46,875	\$46,875	\$46,875	\$46,875	\$46,875
OTHER	\$238,967	\$242,826	\$246,594	\$246,683	\$975,051	\$357,329	\$357,811	\$382,137	\$406,821	\$1,504,097	\$1,504,097	\$1,504,097	\$3,095,876	\$3,095,876	\$3,095,876	\$3,095,876	\$3,095,876	\$3,095,876	\$3,095,876	\$3,095,876
SUB TOTAL	\$497,867	\$538,026	\$541,794	\$541,883	\$2,119,591	\$870,854	\$871,336	\$958,262	\$1,029,246	\$3,739,697	\$3,739,697	\$3,739,697	\$6,920,065	\$6,920,065	\$6,920,065	\$6,920,065	\$6,920,065	\$6,920,065	\$6,920,065	\$6,920,065

TOTAL SG&A EXPENSES

CONSUMER CARD MARKETING, INC.  
Cost of Goods Assumptions

IMPLEMENTATION	YEAR 1					YEAR 2			YEAR 3	YEAR 4	YEAR 5
	Q1	Q2	Q3	Q4	TOTAL	Q5	Q6	Q7			
CARD PRODUCTS & SERVICES											
DATA ENTRY	75%	\$225,000	\$337,500	\$450,000	\$1,462,500	450,000	675,000	675,000	\$3,150,000	\$3,600,000	\$3,600,000
RESIDUAL	75%	\$135,000	\$202,500	\$270,000	\$877,500	270,000	405,000	405,000	\$1,890,000	\$2,160,000	\$2,160,000
	75%	\$18,000	\$45,000	\$81,000	\$261,000	153,000	207,000	261,000	\$1,854,000	\$2,988,000	\$4,140,000
SUB TOTAL		\$378,000	\$585,000	\$801,000	\$2,601,000	873,000	1,287,000	1,341,000	\$6,894,000	\$8,748,000	\$9,900,000
SEGMENT GROSS PROFIT	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
DATABASE MANAGEMENT											
SYSTEM LICENSE	20%	15,000	15,000	30,000	\$75,000	30,000	30,000	45,000	\$210,000	\$270,000	\$330,000
SETUP	50%	25,000	25,000	50,000	\$125,000	50,000	50,000	75,000	\$350,000	\$450,000	\$550,000
MAINTENANCE	25%	1,875	3,750	5,625	\$20,625	13,125	16,875	22,500	\$174,375	\$298,125	\$451,875
DATA STORAGE	20%	3,900	7,800	11,700	\$42,900	27,300	35,100	46,800	\$362,700	\$620,100	\$858,000
IPD SYSTEM	20%	0	0	9,000	\$18,000	9,000	18,000	18,000	\$108,000	\$144,000	\$180,000
VAR	80%	10,000	10,000	20,000	\$50,000	20,000	20,000	30,000	\$140,000	\$180,000	\$220,000
SUB TOTAL		55,775	61,550	76,325	\$331,525	149,425	169,975	237,300	\$1,345,075	\$1,962,225	\$2,589,875
SEGMENT GROSS PROFIT	66.1%	67.9%	71.0%	69.7%	69.1%	70.6%	72.0%	71.3%	73.0%	73.8%	74.2%
MARKETING PROGRAMS											
BRAND PROMOTION PROGRAMS	40%	84,000	168,000	168,000	\$672,000	420,000	588,000	756,000	\$3,696,000	\$4,956,000	\$8,820,000
REVENUE SHARING-SUPERMARKETS	33%	15,000	30,000	30,000	\$120,000	75,000	105,000	135,000	\$660,000	\$885,000	\$1,575,000
ENHANCEMENTS & RELATED PROGRAMS	40%	20,000	40,000	80,000	\$220,000	100,000	100,000	120,000	\$680,000	\$1,040,000	\$1,140,000
MAGAZINE	70%	0	0	0	\$0	420,000	420,000	420,000	\$3,360,000	\$3,360,000	\$3,360,000
OTHER PRODUCTS	67%	0	150,750	301,500	\$1,055,250	603,000	603,000	904,500	\$3,618,000	\$3,919,500	\$4,824,000
SUB TOTAL		119,000	388,750	579,500	\$2,067,250	1,618,000	1,816,000	2,335,500	\$12,014,000	\$14,160,500	\$19,719,000
SEGMENT GROSS PROFIT	47.3%	42.5%	42.1%	39.8%	41.5%	38.5%	39.1%	39.1%	38.8%	40.1%	40.8%
TOTAL COST OF GOODS		552,775	1,035,300	1,456,825	\$4,999,775	2,640,425	3,272,975	3,913,800	\$20,253,075	\$24,870,725	\$32,208,875
TOTAL GROSS PROFIT	38.2%	37.2%	37.6%	38.9%	38.1%	38.6%	38.3%	39.3%	40.1%	41.9%	43.0%

Working Copy

# OF NEW CLIENTS	# OF CARDS PER CLIENT	CARD PRODUCTS & SERVICES (PER CARD ISSUED)	DATA ENTRY (PER APPLICATION)	RESIDUAL (BASED ON CUMULATIVE CONTRACTS)!!!
1	1	1	1	1
2	2	2	2	2
3	3	3	3	3
4	4	4	4	4
5	5	5	5	5
6	6	6	6	6
7	7	7	7	7
8	8	8	8	8
9	9	9	9	9
10	10	10	10	10
11	11	11	11	11
12	12	12	12	12
13	13	13	13	13
14	14	14	14	14
15	15	15	15	15
16	16	16	16	16
17	17	17	17	17
18	18	18	18	18
19	19	19	19	19
20	20	20	20	20
21	21	21	21	21
22	22	22	22	22
23	23	23	23	23
24	24	24	24	24
25	25	25	25	25
26	26	26	26	26
27	27	27	27	27
28	28	28	28	28
29	29	29	29	29
30	30	30	30	30
31	31	31	31	31
32	32	32	32	32
33	33	33	33	33
34	34	34	34	34
35	35	35	35	35
36	36	36	36	36
37	37	37	37	37
38	38	38	38	38
39	39	39	39	39
40	40	40	40	40
41	41	41	41	41
42	42	42	42	42
43	43	43	43	43
44	44	44	44	44
45	45	45	45	45
46	46	46	46	46
47	47	47	47	47
48	48	48	48	48
49	49	49	49	49
50	50	50	50	50
51	51	51	51	51
52	52	52	52	52
53	53	53	53	53
54	54	54	54	54
55	55	55	55	55
56	56	56	56	56
57	57	57	57	57
58	58	58	58	58
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74	74	74	74	74
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76	76	76	76	76
77	77	77	77	77
78	78	78	78	78
79	79	79	79	79
80	80	80	80	80
81	81	81	81	81
82	82	82	82	82
83	83	83	83	83
84	84	84	84	84
85	85	85	85	85
86	86	86	86	86
8				

[illegible]

## # OF NEW MASICS SYSTEMS

[illegible]

CONSULTING/MARKETING PROGRAMS

**BRAND PROMOTION PROGRAMS:**

300,000	5	7	9	9	30	300,000	44	59	300,000	59	300,000	100
0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%
\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20
\$50,000	5	5	6	6	22	\$50,000	34	52	\$50,000	52	\$50,000	52
1,000,000	1	1	1	1	4	1,000,000	9	8	1,000,000	8	1,000,000	1,000,000
\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60
2	2	2	3	3	10.0	13.0	12.0	13.0	13.0	13.0	13.0	13.0
1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45

June 20th

# OF PROGRAMS  
REVENUE PER PROGRAM

5/5

OTHER PRODUCTS, EGG/ET OR OTHER ITEMS

[illegible]

(1) Percent revenues based on reorders from existing customers. Calculated based on assumed annual percentage.

## CONSUMER CARD MARKETING, INC.

## Forecast

	YEAR 1	%	YEAR 2	%	YEAR 3	%	YEAR 4	%	YEAR 5	%
INCOME STATEMENT:										
REVENUE										
IMPLEMENTATION	\$3,468,000	43.0%	\$6,528,000	28.8%	\$9,192,000	27.2%	\$11,664,000	27.3%	\$13,200,000	23.3%
DATABASE MANAGEMENT	1,074,500	13.3%	2,851,000	12.6%	4,976,000	14.7%	7,488,000	17.5%	10,022,500	17.7%
CONSULTING/MARKETING PROGRAMS	3,531,400	43.7%	13,274,000	58.6%	19,635,200	58.1%	23,622,200	55.2%	33,309,000	58.9%
TOTAL REVENUE	8,073,900	100.0%	22,653,000	100.0%	33,803,200	100.0%	42,774,200	100.0%	56,531,500	100.0%
COST OF GOODS										
IMPLEMENTATION	2,601,000	32.2%	4,896,000	21.6%	6,894,000	20.4%	8,748,000	20.5%	9,900,000	17.5%
DATABASE MANAGEMENT	331,525	4.1%	811,325	3.6%	1,345,075	4.0%	1,962,225	4.6%	2,589,875	4.6%
CONSULTING/MARKETING PROGRAMS	2,067,250	25.6%	8,105,000	35.8%	12,014,000	35.5%	14,160,500	33.1%	19,719,000	34.9%
TOTAL	4,999,775	61.9%	13,812,325	61.0%	20,253,075	59.9%	24,870,725	58.1%	32,208,875	57.0%
GROSS PROFIT	3,074,125	38.1%	8,840,675	39.0%	13,550,125	40.1%	17,903,475	41.9%	24,322,625	43.0%
SALES & MARKETING	1,144,500	14.2%	2,235,600	9.9%	3,034,000	9.0%	3,824,188	8.9%	5,148,766	9.1%
GENERAL & ADMINISTRATIVE	975,091	12.1%	1,504,097	6.6%	2,198,477	6.5%	3,095,878	7.2%	4,019,657	7.1%
PRE TAX INCOME	954,534	11.8%	5,100,978	22.5%	8,317,648	24.6%	10,983,410	25.7%	15,154,203	26.8%
PROVISION FOR INCOME TAXES	419,995	5.2%	2,244,430	9.9%	3,659,765	10.8%	4,832,700	11.3%	6,667,849	11.8%
NET INCOME	\$534,539	6.6%	\$2,856,547	12.6%	\$4,657,883	13.8%	\$6,150,710	14.4%	\$8,486,354	15.0%



CONSUMER CARD MARKETING, INC.  
SUMMARY OF SG&A EXPENSES

	YEAR 1					YEAR 2					YEAR 3					YEAR 4					YEAR 5				
	Q1	Q2	Q3	Q4	TOTAL	Q5	Q6	Q7	Q8	TOTAL	Q9	Q10	Q11	Q12	TOTAL	Q13	Q14	Q15	Q16	TOTAL	Q17	Q18	Q19	Q20	TOTAL
<b>SALES &amp; MARKETING:</b>																									
TARGETS	\$120,000	\$120,000	\$120,000	\$120,000	\$480,000	\$240,000	\$240,000	\$300,000	\$330,000	\$1,110,000	\$240,000	\$240,000	\$300,000	\$330,000	\$1,110,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$7,200,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$7,200,000
SALARIES	\$90,000	\$120,000	\$120,000	\$120,000	\$450,000	\$240,000	\$240,000	\$300,000	\$330,000	\$1,110,000	\$240,000	\$240,000	\$300,000	\$330,000	\$1,110,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$7,200,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$7,200,000
IMPLIED HEADCOUNT	3.0	4.0	4.0	4.0	16.0	8.0	8.0	10.0	11.0	31.0	8.0	8.0	10.0	11.0	31.0	15.0	15.0	15.0	15.0	60.0	15.0	15.0	15.0	15.0	60.0
PAYROLL TAXES	\$9,000	\$12,000	\$12,000	\$12,000	\$45,000	\$24,000	\$24,000	\$30,000	\$33,000	\$111,000	\$24,000	\$24,000	\$30,000	\$33,000	\$111,000	\$18,000	\$18,000	\$18,000	\$18,000	\$72,000	\$18,000	\$18,000	\$18,000	\$18,000	\$72,000
BENEFITS	\$9,000	\$12,000	\$12,000	\$12,000	\$45,000	\$24,000	\$24,000	\$30,000	\$33,000	\$111,000	\$24,000	\$24,000	\$30,000	\$33,000	\$111,000	\$18,000	\$18,000	\$18,000	\$18,000	\$72,000	\$18,000	\$18,000	\$18,000	\$18,000	\$72,000
T & E	\$10,800	\$14,400	\$14,400	\$14,400	\$54,000	\$28,800	\$28,800	\$36,000	\$39,600	\$142,800	\$28,800	\$28,800	\$36,000	\$39,600	\$142,800	\$28,800	\$28,800	\$28,800	\$28,800	\$115,200	\$28,800	\$28,800	\$28,800	\$28,800	\$115,200
PROFESSIONAL SVCS	\$82,500	\$125,000	\$125,000	\$125,000	\$457,500	\$240,000	\$240,000	\$300,000	\$330,000	\$1,110,000	\$240,000	\$240,000	\$300,000	\$330,000	\$1,110,000	\$180,000	\$180,000	\$180,000	\$180,000	\$720,000	\$180,000	\$180,000	\$180,000	\$180,000	\$720,000
TRADE SHOWS & RELATED	\$12,500	\$12,500	\$12,500	\$12,500	\$50,000	\$25,000	\$25,000	\$25,000	\$25,000	\$100,000	\$25,000	\$25,000	\$25,000	\$25,000	\$100,000	\$37,500	\$37,500	\$37,500	\$37,500	\$150,000	\$37,500	\$37,500	\$37,500	\$37,500	\$150,000
ADVERTISING / PR	\$12,500	\$12,500	\$12,500	\$12,500	\$50,000	\$25,000	\$25,000	\$25,000	\$25,000	\$100,000	\$25,000	\$25,000	\$25,000	\$25,000	\$100,000	\$37,500	\$37,500	\$37,500	\$37,500	\$150,000	\$37,500	\$37,500	\$37,500	\$37,500	\$150,000
PRESENTATION MATERIALS	\$12,500	\$12,500	\$12,500	\$12,500	\$50,000	\$25,000	\$25,000	\$25,000	\$25,000	\$100,000	\$25,000	\$25,000	\$25,000	\$25,000	\$100,000	\$37,500	\$37,500	\$37,500	\$37,500	\$150,000	\$37,500	\$37,500	\$37,500	\$37,500	\$150,000
OTHER / MISCELLANEOUS	\$25,000	\$25,000	\$25,000	\$25,000	\$100,000	\$50,000	\$50,000	\$50,000	\$50,000	\$200,000	\$50,000	\$50,000	\$50,000	\$50,000	\$200,000	\$150,000	\$150,000	\$150,000	\$150,000	\$600,000	\$150,000	\$150,000	\$150,000	\$150,000	\$600,000
SUB TOTAL	\$258,500	\$295,200	\$295,200	\$295,200	\$1,144,100	\$513,525	\$513,525	\$586,125	\$622,425	\$2,235,600	\$513,525	\$513,525	\$586,125	\$622,425	\$2,235,600	\$3,034,168	\$3,034,168	\$3,034,168	\$3,034,168	\$12,136,672	\$3,034,168	\$3,034,168	\$3,034,168	\$3,034,168	\$12,136,672
<b>GENERAL &amp; ADMINISTRATIVE:</b>																									
TARGETS	\$50,000	\$50,000	\$50,000	\$50,000	\$200,000	\$100,000	\$100,000	\$100,000	\$100,000	\$400,000	\$100,000	\$100,000	\$100,000	\$100,000	\$400,000	\$1,430,000	\$1,430,000	\$1,430,000	\$1,430,000	\$5,720,000	\$1,430,000	\$1,430,000	\$1,430,000	\$1,430,000	\$5,720,000
SALARIES	\$40,000	\$50,000	\$50,000	\$50,000	\$190,000	\$100,000	\$100,000	\$100,000	\$100,000	\$400,000	\$100,000	\$100,000	\$100,000	\$100,000	\$400,000	\$1,430,000	\$1,430,000	\$1,430,000	\$1,430,000	\$5,720,000	\$1,430,000	\$1,430,000	\$1,430,000	\$1,430,000	\$5,720,000
IMPLIED HEADCOUNT	8.0	8.0	8.0	8.0	32.0	8.0	8.0	8.0	8.0	32.0	8.0	8.0	8.0	8.0	32.0	18.8	18.8	18.8	18.8	75.2	18.8	18.8	18.8	18.8	75.2
PAYROLL TAXES	\$4,000	\$5,000	\$5,000	\$5,000	\$19,000	\$2,000	\$2,000	\$2,000	\$2,000	\$8,000	\$2,000	\$2,000	\$2,000	\$2,000	\$8,000	\$28,600	\$28,600	\$28,600	\$28,600	\$114,400	\$28,600	\$28,600	\$28,600	\$28,600	\$114,400
BENEFITS	\$4,000	\$5,000	\$5,000	\$5,000	\$19,000	\$2,000	\$2,000	\$2,000	\$2,000	\$8,000	\$2,000	\$2,000	\$2,000	\$2,000	\$8,000	\$28,600	\$28,600	\$28,600	\$28,600	\$114,400	\$28,600	\$28,600	\$28,600	\$28,600	\$114,400
PROFESSIONAL SVCS	\$12,000	\$12,000	\$12,000	\$12,000	\$48,000	\$12,000	\$12,000	\$12,000	\$12,000	\$48,000	\$12,000	\$12,000	\$12,000	\$12,000	\$48,000	\$171,800	\$171,800	\$171,800	\$171,800	\$687,200	\$171,800	\$171,800	\$171,800	\$171,800	\$687,200
RENT & RELATED	\$10,000	\$10,000	\$10,000	\$10,000	\$40,000	\$10,000	\$10,000	\$10,000	\$10,000	\$40,000	\$10,000	\$10,000	\$10,000	\$10,000	\$40,000	\$148,000	\$148,000	\$148,000	\$148,000	\$592,000	\$148,000	\$148,000	\$148,000	\$148,000	\$592,000
TELEPHONE	\$36,000	\$36,000	\$36,000	\$36,000	\$144,000	\$36,000	\$36,000	\$36,000	\$36,000	\$144,000	\$36,000	\$36,000	\$36,000	\$36,000	\$144,000	\$540,000	\$540,000	\$540,000	\$540,000	\$2,160,000	\$540,000	\$540,000	\$540,000	\$540,000	\$2,160,000
OFFICE EXPENSE	\$13,250	\$13,250	\$13,250	\$13,250	\$53,000	\$13,250	\$13,250	\$13,250	\$13,250	\$53,000	\$13,250	\$13,250	\$13,250	\$13,250	\$53,000	\$198,750	\$198,750	\$198,750	\$198,750	\$795,000	\$198,750	\$198,750	\$198,750	\$198,750	\$795,000
EQUIPMENT	\$15,000	\$15,000	\$15,000	\$15,000	\$60,000	\$15,000	\$15,000	\$15,000	\$15,000	\$60,000	\$15,000	\$15,000	\$15,000	\$15,000	\$60,000	\$225,000	\$225,000	\$225,000	\$225,000	\$900,000	\$225,000	\$225,000	\$225,000	\$225,000	\$900,000
LEGAL & ACCOUNTING	\$3,000	\$3,000	\$3,000	\$3,000	\$12,000	\$3,000	\$3,000	\$3,000	\$3,000	\$12,000	\$3,000	\$3,000	\$3,000	\$3,000	\$12,000	\$45,000	\$45,000	\$45,000	\$45,000	\$180,000	\$45,000	\$45,000	\$45,000	\$45,000	\$180,000
T & E	\$18,750	\$18,750	\$18,750	\$18,750	\$75,000	\$18,750	\$18,750	\$18,750	\$18,750	\$75,000	\$18,750	\$18,750	\$18,750	\$18,750	\$75,000	\$307,500	\$307,500	\$307,500	\$307,500	\$1,230,000	\$307,500	\$307,500	\$307,500	\$307,500	\$1,230,000
DEPRECIATION & AMORTIZATION	\$7,500	\$7,500	\$7,500	\$7,500	\$30,000	\$7,500	\$7,500	\$7,500	\$7,500	\$30,000	\$7,500	\$7,500	\$7,500	\$7,500	\$30,000	\$112,500	\$112,500	\$112,500	\$112,500	\$450,000	\$112,500	\$112,500	\$112,500	\$112,500	\$450,000
INTEREST (NOT ON BANK DEBT)	\$7,500	\$7,500	\$7,500	\$7,500	\$30,000	\$7,500	\$7,500	\$7,500	\$7,500	\$30,000	\$7,500	\$7,500	\$7,500	\$7,500	\$30,000	\$112,500	\$112,500	\$112,500	\$112,500	\$450,000	\$112,500	\$112,500	\$112,500	\$112,500	\$450,000
TAXES (OTHER)	\$7,500	\$7,500	\$7,500	\$7,500	\$30,000	\$7,500	\$7,500	\$7,500	\$7,500	\$30,000	\$7,500	\$7,500	\$7,500	\$7,500	\$30,000	\$112,500	\$112,500	\$112,500	\$112,500	\$450,000	\$112,500	\$112,500	\$112,500	\$112,500	\$450,000
OTHER	\$250	\$250	\$250	\$250	\$1,000	\$250	\$250	\$250	\$250	\$1,000	\$250	\$250	\$250	\$250	\$1,000	\$750	\$750	\$750	\$750	\$3,000	\$750	\$750	\$750	\$750	\$3,000
SUB TOTAL	\$238,987	\$242,826	\$242,826	\$242,826	\$967,465	\$238,987	\$238,987	\$238,987	\$238,987	\$955,967	\$238,987	\$238,987	\$238,987	\$238,987	\$955,967	\$3,034,168	\$3,034,168	\$3,034,168	\$3,034,168	\$12,136,672	\$3,034,168	\$3,034,168	\$3,034,168	\$3,034,168	\$12,136,672
TOTAL SG&A EXPENSES	\$497,487	\$538,026	\$538,026	\$538,026	\$2,111,565	\$752,512	\$752,512	\$825,112	\$861,412	\$3,171,567	\$752,512	\$752,512	\$825,112	\$861,412	\$3,171,567	\$6,068,336	\$6,068,336	\$6,068,336	\$6,068,336	\$24,273,344	\$6,068,336	\$6,068,336	\$6,068,336	\$6,068,336	\$24,273,344

## Plan Assumptions

### Implementation:

#### Cards:

- Each new client will average 1,000,000 customers
- There will be three new clients one in QTR 3 and two in QTR 4
- Cards will sell for an average of \$ .25
- Data entry will sell for \$ .18 per application  
CCMI will do data entry for each new client (1,000,000 applications). However, CCMI will key 50% of new applications in the Quarter the cards are delivered, 25% in the next Quarter, and 25% in the next Quarter 3 (i.e. new program Quarter 3: we will key 500,000 applications in Quarter 3, an additional 250,000 in Quarter 4 and 250,000 in Quarter 5).
- Drug stores will average 400,000 customers for each new chain
- Card and data entry for Drug Stores are the same as supermarkets

#### E-Gift:

- Each new client will average 500,000 customers  
30% of E-gift cards will be sold cards only, for an average of \$ .10  
70% will be sold with packaging for \$ .22
- In addition to Meijers, CCMI will sell two new clients E-gift cards by 6/30/03

#### Data Base Management:

- License fee for each delivered system will be \$150,000 each. We will license one new system in Quarter 4  
Blue Square will add 46 new stores in Quarter 2  
Nash will add 50 stores over the year
- In-House Data Base Services will be the NACDS program  
Quarter 2 will have Duane Reade and Quarter 3 and 4 Duane Reade & Lewis  
Monthly fees consist of:  
Processing for each store is \$225 per month

Set up Fees Average 50,000

Quarter 2 has Duane Reade set up fees

Quarter 3 has Lewis set up fee

Quarter 4 has one new delivered system

- VAR = \$25,000 per system  
Quarter 2 = NACDS  
Quarter 4 = New system delivered

#### Consulting/Marketing

- Each program will have 75,000 names @\$ .15
- Each program will have 3 chains (supermarkets in it)
- Database processing will be \$2,000 per chain/per program (i.e. \$6,000 program)
- Project development/management will be 3 days at \$2,500 per day
- Printing fulfillment will be \$ .20 with an 18% margin
- Post analysis will average \$5,000 per program

#### Enhancements

- 10 programs at \$25,000 per program
- Cost of Goods Sold will be 10% of enhancement sales



# EXHIBIT B

EXHIBIT B

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ Annual report pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

For the fiscal year ended December 31, 2000 or

☐ Transition Report pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

Commission File Number: 1-10991

VALASSIS COMMUNICATIONS, INC.  
(Exact Name of Registrant as Specified in its Charter)

DELAWARE 38-2760940  
(State of Incorporation) (IRS Employer Identification Number)

19975 Victor Parkway  
Livonia, MI 48152  
(address of principal executive offices)  
Registrant's Telephone Number: (734) 591-3000

Securities registered pursuant to Section 12(b) of the Act:

TITLE of each class -----	Exchange on which registered -----
Common Stock, par value \$.01 per share	New York Stock Exchange
9.55% Senior Notes Due 2003	Not Applicable
6 5/8% Senior Notes Due 2009	Not Applicable

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and, (2) has been subject to such filing requirements for the past 90 days:

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of March 15, 2001, there were 53,465,772 shares of the Registrant's Common Stock outstanding. As of such date, the aggregate market value of the voting stock held by non-affiliates\* of the registrant was \$1,678,677,000.

The applicable portions of the Company's Proxy Statement for the 2001 Annual Meeting of Stockholders to be held on or about May 15, 2001 are incorporated by reference herein into Part III of this Annual Report on Form 10-K.

\* Without acknowledging that any individual director or executive officer of the Company is an affiliate, the shares over which they have voting control have been included as owned by affiliates solely for purposes of this computation.

PART I

Item 1. Business  
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The Company

Valassis Communications, Inc. leads the marketing services industry by providing a wide range of strategic marketing solutions for manufacturers and retailers. We generate most of our revenues by printing and publishing cents-off coupons and other consumer purchase incentives primarily for package goods manufacturers. We are one of two of the country's largest publishers of these coupons.

We offer a broad array of marketing products and services, including:

- . Free-Standing Inserts ("FSIs") - four-color promotional booklets containing the coupons of multiple advertisers that are distributed by us to over 60 million households through Sunday newspapers;
- . Valassis Impact Promotions ("VIP") - solo specialized promotional programs for single advertisers;
- . Targeted Marketing Services ("TMS") - product sampling and advertising, on-page newspaper promotions ("ROP") and security consulting services;
- . Customer Relationship Marketing - targeted promotions based on consumer purchase behavior.

We produced our first FSI in 1972. In 2000, we inserted our cooperative FSIs in the Sunday edition of over 530 newspapers with a combined average paid circulation of over 58 million on 44 publishing dates. By comparison, there were approximately 93.3 million households in the United States, according to information published by the U.S. Census Bureau.

Business Strategy

We believe that our existing products put us in a strong position to meet the mass and cluster-targeted needs of our clients. Our strategy is to build on the strength of our core FSI product to offer a range of integrated marketing solutions to a broader base of clients. In order to accomplish this, we will continue our commitment to the FSI segment of our business, while providing high levels of product quality and client service. In addition, we will attempt to capitalize on our expertise in consumer promotion to further expand our existing VIP and Targeted Marketing Services divisions, and to further develop our Customer Relationship Marketing and internet initiatives. We will continue to offer more highly-targeted and one-to-one marketing solutions via direct mail and the Internet, utilizing database marketing techniques.

The Company's Products

We print and publish cents-off coupons, refund offers, premiums, sweepstakes and contests distributed to households throughout the United States. We offer our clients a variety of consumer promotion alternatives. Depending upon the particular promotion goal, a client can choose to include its promotional materials in FSIs or ROP, distribute a customized printed solo insert (VIP), or distribute a product sampling program. We market our products through our own sales force and rely to a significant extent on repeat business.

Our Marketing Services Consultants personally call on existing clients to maintain relationships and on potential customers to describe the advantages afforded by our products compared to other promotion alternatives. In addition, approximately 20% - 25% of each cooperative FSI program is sold to direct mail marketers who purchase space (referred to as "remnant space") at reduced costs in exchange for accepting such space on an available basis.

## Free-Standing Inserts (FSIs)

Most of the consumer purchase incentives that we publish are featured in cooperative FSIs, which are four-color promotional booklets printed by us at our own facilities and distributed through Sunday newspapers. Cooperative FSIs are booklets containing promotions from multiple advertisers. We produced our first FSI in 1972. In 2000, we inserted our cooperative FSIs in the Sunday edition of over 530 newspapers with a combined average newspaper circulation of over 58 million on 44 publishing dates. By comparison, there were approximately 93.3 million households in the United States, according to information published by the U.S. Census Bureau.

As a natural extension of our U.S. business, Valassis of Canada publishes the Shop & Save FSI in Canada. The Shop & Save FSI is distributed to approximately 5 million Canadian households through weekend home-delivered newspapers.

Most FSI sales are made significantly in advance of program dates. We typically announce our annual publication schedule approximately 12 to 18 months in advance of the first publication date and clients may reserve space at any time thereafter. Marketing Services Consultants work closely with customers to select their FSI publication dates from our schedule and coordinate all aspects of FSI printing and publication, as well as to obtain commitments from customers in the form of signed contracts. Our proprietary order entry and ad placement software allows us to produce as many different FSI versions as clients require, typically over 240 different layout versions per publication date. By offering different versions in different markets, we offer our clients greater flexibility to target precise geographic areas or tailor promotional offers to particular markets by varying coupon values, promotion copy and terms of the promotional offer.

At the end of the selling cycle for each cooperative FSI program, there is generally space in the booklet that has not been sold. This remnant space is sold at a discount, primarily to direct mail marketers, who are placed on a waiting list for space that may become available. We select direct mail marketers as remnant space clients on the basis of a number of factors, including price, circulation, reputation and credit-worthiness. Remnant space clients are subject to being "bumped" in favor of a regular price client in need of space at the last minute. Remnant space sales are included in total cooperative FSI sales for financial reporting purposes.

Total cooperative FSI sales during the year ended December 31, 2000 were \$603.0 million, or 70% of our total revenue. The top ten FSI customers accounted for approximately 27% of FSI sales during the year ended December 31, 2000, and no single customer accounted for more than 10% of FSI sales during the same period.

## Valassis Impact Promotions (VIP)

VIP offers its clients specialty print promotion products in customized formats such as die-cuts, posters and calendars, as well as traditional FSI formats. Because these promotions feature only one manufacturer (referred to as "solos"), the customer has the ability to create a completely individualized promotion. While VIP does produce printed material for direct mail programs or for shipment to store locations, its primary product is newspaper-delivered promotions. VIP offers customers the flexibility to run promotions any day of the week in any newspaper throughout the United States. VIP specializes in producing turnkey promotions for franchise retail marketers, such as fast food chains, allowing orders to be placed on a national, regional or local basis.

VIP sales during the year ended December 31, 2000 were \$136.1 million, or 16% of our total revenue. VIP clients are made up primarily of franchise retailers but include other categories, such as telecommunications and computer hardware. Two VIP clients accounted for 22% of VIP sales for the year ended December 31, 2000, with the top ten clients accounting for approximately 48% of total VIP sales.

## Targeted Marketing Services

The Targeted Marketing Services division comprises the following products and services:

### Product Sampling and Advertising

We offer newspaper-delivered sampling products that gives manufacturers the ability to cost-effectively reach up to 65 million households in one weekend. Samples can either be machine-inserted into newspapers (Newspac(R)), placed in a polybag alongside the newspaper, or pre-sealed in a pouch that forms part of the polybag (Newspouch(R)). In addition, Brand Bag(TM) and Brand Bag Plus(TM) offer marketers the opportunity to deliver an impactful advertising message on a newspaper polybag without a sample included. Both products offer clients home-delivered newspaper circulation of up to 46 million households in one weekend. The bags feature the customer's advertising with the option of a weather-resistant tear-off coupon. We increased our competitive advantage in 2000 with the purchase of the consumer direct-to-door product sampling arm of Alternative Marketing Networks. We also offer Targeted Solo Inserts which promote manufacturers' products in conjunction with specific retail locations.

In 2000, Product Sampling and Advertising generated total revenue of \$55.5 million, or 6% of our total revenue. The top ten clients accounted for approximately 60% of Product Sampling and Advertising sales during the year ended December 31, 2000, with two clients accounting for 23% of such sales during the same period.

### Run-of-Press (ROP)

We arrange for the placement of on-page newspaper ads on behalf of our clients. We serve in an agency role in this regard.

Media (newspaper placement fees) is the major cost component of ROP distribution, which generally accounts for approximately 98% of our total direct ROP costs. We believe that our clients use us to place ROP because of our ability to negotiate favorable media rates, our well-developed production and placement capabilities, and our capacity to execute integrated FSI and ROP programs. We do not project this division to be a growth area, but rather an additional service offered to our clients.

ROP customers include primarily package goods manufacturers, pharmaceutical companies and their advertising and promotion agencies. Our total ROP sales were \$25.7 million during the year ended December 31, 2000, or 3% of our total revenue. The top ten ROP clients accounted for 80% of the ROP sales during the same period.

### Promotion Watch

Promotion Watch offers a variety of promotion security consulting services, including the execution of chance promotions such as sweepstakes and contests. We help clients with the entire process, from preliminary planning, through the writing of official rules, overseeing the printing and placement of winning pieces, and conducting background investigations of winners.

### Customer Relationship Marketing (CRM)

Customer Relationship Marketing allows companies to understand consumer purchase behavior and to use that information to deliver intelligent, targeted promotions. The goal of CRM is to provide retailers with a turnkey service that builds long-term consumer relationships and increases profitability. During 1999, we made a strategic investment in Relationship Marketing Group, Inc., which was later reorganized into a limited liability company, (RMG). In August 2000, VNU Marketing Information and RMS, Inc. invested in RMG and RMG was renamed Valassis Retail Marketing Systems (VRMS). We currently own 22.5% of VRMS and have an option to

acquire up to and additional 52.5%. VRMS provides a consumer packaged goods-sponsored direct mail vehicle that uses proprietary software to target grocery retail frequent shopper households based on prior purchase behavior.

We completed our most significant acquisition to date with the 80% purchase of Boston-based PreVision Marketing(R), a high-end, full-service CRM agency. PreVision had 2000 revenues of \$25 million.

#### Competition

We compete in the cooperative FSI business principally with News America FSI, Inc., a company owned by The News Corporation Limited. We compete for business primarily on the basis of the following:

- . client service and sales relationships;
- . price; and
- . category availability.

We also compete with in-store marketing and other forms of promotional strategies or coupon delivery, and may compete with any new technology or products in the sales promotion field.

In the past, new competitors have tried to establish themselves in the FSI market. During such times, the number of FSI programs increased, which led to a meaningful decrease in the number of pages per FSI program. As a result, we experienced periods of intense price competition. These events had a material adverse effect on our financial performance.

If new competitors enter the FSI market or our existing competitor tries to increase market share by reducing prices, our financial performance could be materially adversely affected.

Although we believe that cooperative FSIs are currently the most efficient means of distributing coupons to the public, we compete with other media for the promotion and marketing dollars of our customers. It is possible that alternative media or changes in promotional strategies could make FSIs less attractive to our customers or could cause a shift in their preference to different promotional materials or coupon delivery modes.

The VIP division competes with News America FSI, Inc. for package goods and fast food business, and with commercial printers.

The TMS division competes with Sunflower Marketing for polybag advertising and sampling.

We compete with several newspaper network groups in the ROP market. As there is no significant capital investment associated with this business, other competitors could easily enter the ROP market. An increase in the number of ROP competitors could result in a loss of market share.

#### Employees

As of December 31, 2000, we had approximately 1,400 full-time employees: 432 of these employees are on our sales, sales operations and marketing staff; 791 are involved in manufacturing; 38 are on our management information systems staff; and 139 are involved with administration. None of our employees are represented by a labor union. We consider labor relations with employees to be good and have not experienced any interruption of our operations due to labor disagreements.

#### Segment Reporting

For segment financial information for the years 2000, 1999 and 1998, see the table titled "Results of Operations" presented on page 11 under "Management's Discussion & Analysis of Financial Condition & Results of Operations" and in Note 15 of the "Notes to Consolidated Financial Statements" on pages 37 and 38 under Item 8 "Financial Statements and Supplementary Data."

# EXHIBIT C



CBM-2003

EXHIBIT C

<u>Chain</u>	<u>FS Start Date</u>	<u># of Stores with FS</u>	<u># of Cards</u>	<u>Database</u>	<u>Supporting Vendors</u>
Acme (Albertsons)		148		VRMS	Catalina, Upromise
Albertsons	2001	1,202		NCR Teradata, Catalina RDOL	Catalina, Upromise, PDA Device
Balls Food Stores	1998	28		VRMS Market Expert	Upromise
Bashas	1998	68	1 million +	Catalina RDOL	Catalina, Upromise, Beeline Shopper, Point of Sale Ltd.-Isreal (ICL)
Big Y	1990	49		VRMS	
Bi-Lo (Ahold)	1997	295		VRMS	Catalina Checkout Coupon, Checkout Savings, Upromise, Lason, ClubMom
Brookshire		60		VRMS	Upromise, Fuel Rewards, Catalina
Clemens Markets	1995	20	300,000+	S&H Technologies	S&H Technologies
Dillion Stores (Kroger)		110		VRMS	Upons, Upromise
D&W Food Centers	1996	24	1 million +	VRMS	
Dominick's Finer Foods (Safeway)	1996	118		Corema	Catalina Checkout Coupons, Catalina Direct, Upromise
Eagle Food Centers	1995	64	80% of Sales	VRMS	Catalina Checkout Coupons, AdPlex Data Marketing
Farmer Jack (A&P)		110	90% of Sales	VRMS	Catalina
Food Emporium		37			Carlson Company Gold Points
Food Lion LLC	1995	1,229	7 million +	VRMS	Catalina Checkout Coupons, PlanetU Paperless Coupons



<u>Chain</u>	<u>FS Start Date</u>	<u># of Stores with FS</u>	<u># of Cards</u>	<u>Database</u>	<u>Supporting Vendors</u>
Frys Food Stores (Kroger)				VRMS	
Genuardi's Family Market (Safeway)		41			Catalina, Upromise, eScrip.com
Giant Eagle	1994	210	80% of transactions	Oracle, VRMS	Catalina Checkout Coupons, Upromise, Healthnotes, DSRetail
Gerlands Food Fair	1995	11	450,000	S2	Catalina ValuPage
Giant Food (Ahold)	2000	186		VRMS	Upromise
Giant Food Stores (Ahold)	2003	114		VRMS	Catalina, Upromise
A&P	1991	635	14 Million	484 stores w/ RDOL, 142 stores w/ VRMS	Catalina Checkout Coupon, Checkout Direct
Gristede's Foods		43			
Harris-Teeter	1997	143		In-house	Catalina Checkout Coupon, Checkout Direct, Upromise
Jewel Food Stores	1993	194		VRMS	Catalina Checkout Coupon, Checkout Direct, Upromise, Symbol Technologies
Kash N' Karry Food Stores (Delhaize)	1998	138	650,000	Data Ventures	Catalina Checkout Coupon, Checkout Direct
King Soopers	1997	123		VRMS	Catalina Checkout Coupon, NBP, Market Logic
Kings Supermarkets	1990	29			
Kohl's Food Stores (A&P)		33			Catalina
The Kroger Co.	1998	1,220		VRMS, Dunhumby	Catalina Checkout Coupon, Checkout Direct, Valassis, Upromise

<u>Chain</u>	<u>FS Start Date</u>	<u># of Stores with FS</u>	<u># of Cards</u>	<u>Database</u>	<u>Supporting Vendors</u>
K-V-A-T	1997	85		VRMS	Upromise
Lowe's Food Stores	2001	105	1 Million +	S&H Greenpoints	S&H Greenpoints, NeXpansion
Marsh Supermarkets	1998	78	900,000	VRMS	Valassis, Copient Technologies
Martin's Supermarkets		17		VRMS	Upromise
Pathmark Stores	2000	144	3 Million +	Catalina RDOL	Catalina, IBM
Pick 'n Save	1991	118	1,350,000	Catalina RDOL	GeoMarketing
Price Chopper	1991	101	2.3 Million	VRMS	
QFC		83			
Ralph's (Kroger)	1997	391	15 Million	Corema	Catalina Checkout Coupon, Checkout Direct, PlanetU
Randall's Food Market (Safeway)	1996	131		Corema	Catalina Checkout Coupon, Checkout Direct
Safeway	1997	1,513		Corema	Catalina Checkout Coupon, Upromise, KhiMetrics
Scolari's Food & Drug	1998	16	140,000	VRMS, Greenpoints	S&H Greenpoints
Shaw's Supermarkets	1997	187	5.4 Million	VRMS, NCR Teradata	Catalina
Smart & Final	1997	230			
Smith's Food & Drug (Kroger)	1997	117		VRMS	Upromise, PlanetU
Stop & Shop (Ahold)	1996	324	5 Million	VRMS, Corema	Catalina Checkout Coupon, Checkout Direct, Speed Pass, Cuesol
Tops (Ahold)	1999	73		VRMS	Catalina, Upromise
Ukrops	1987	28	400,000	VRMS	Cannondale, Shopper Genetics

<u>Chain</u>	<u>FS Start Date</u>	<u># of Stores with FS</u>	<u># of Cards</u>	<u>Database</u>	<u>Supporting Vendors</u>
The Vons Companies (Safeway)		323		Corema	
Waldbaum (A&P)		76			Upromise, Catalina
Wegmans Food Markets	1990	62	2 Million +	VRMS	Upromise
Weis Markets	1998	163	1.5 Million +	VRMS	Catalina Checkout Coupon, Checkout Direct
Winn Dixie	2002	1,000	9 Million +	Catalina RDOL	Catalina, Upromise, Fuel Marketing Solutions, TCI

# EXHIBIT D

EXHIBIT D

GEMCON  
2003

## Frequent Shopper Retailer Coverage Analysis



Scott Taylor  
EVP/General Manager  
TDLinx

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## TDLinx



- **\$5.1 Billion**
  - ACNielsen
  - Nielsen Media
  - Spectra
  - *Progressive Grocer*
  - *Convenience Store News*
  - *Billboard*
  - *Adweek*
- **TDLinx**
  - Trade Dimensions
  - Established 1969
  - Dominant Supplier
  - Premier Source
  - Multiple Sources



GEMCON  
2003

## Fleming Fallout



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***Fleming.***

**CORE-MARK**

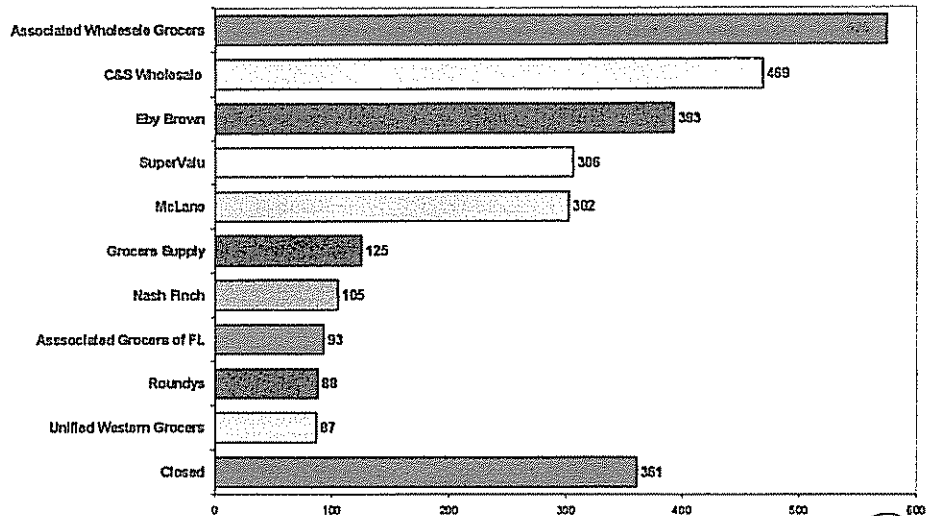
- 10,394 Fleming Supplied Stores January 2003
  - Removed 5,314 Core-Mark Supplied Stores
    - Core-Mark Business Now Stabilized and For Sale
  - Flagged 34 Stores that Closed and Reopened under New Trade Channel and Ownership
    - Example: A Super Kmart closed in March 2003 and re-opened as Home Depot in September 2003
  - 361 Stores Closed
- Final Store Set
  - 5,080 stores supplied by Fleming in Jan 2003
  - 4,685 stores formerly supplied by Fleming in Oct 2003

***Where Fore Art Thou Fleming?***

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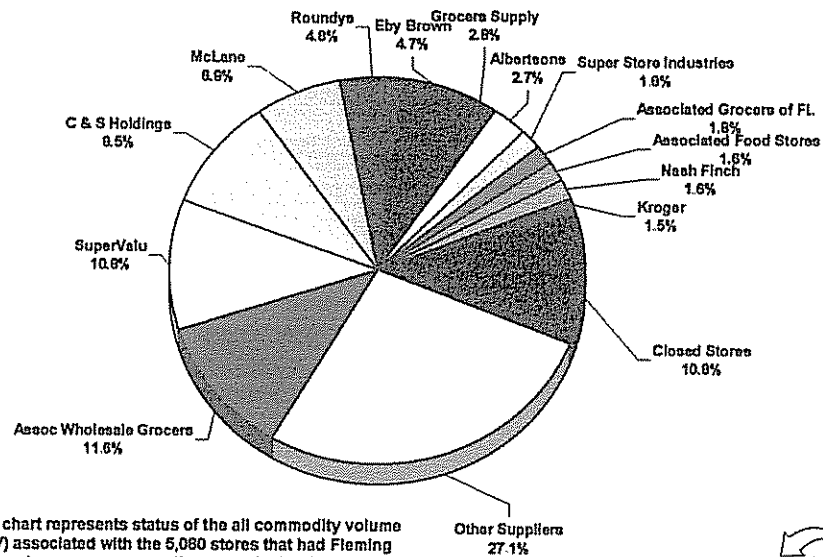
## Where Did the Fleming Stores Go?



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## Where Did the Fleming Volume Go?



This chart represents status of the all commodity volume (ACV) associated with the 5,080 stores that had Fleming as its primary grocery supplier as tracked by TDLinx.

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## Supply is In Demand

- Opposite Story
  - Acquisitions, multi-channel expansion and consolidated buying!
- From...
  - Single Headquarters
  - 32 Divisions/Supply Points
- To...
  - Over 100 Supplying Companies
  - Over 200 Supply-Points
- Livin' the Retail Local!

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2003

## Frequent Shopper Retailer Coverage Analysis



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## Methodology

- Actual count, *not survey data*
- RSC
  - RSC Card-Based Marketing Report
  - Historical Data
  - Design
- TDLink
  - Channel Databases
    - Supermarket/Supercenter Database
    - FMI/Progressive Grocer Definition – \$2MM+/Year
  - Store Counts
  - ACV%
  - Estimated Independents at 20%



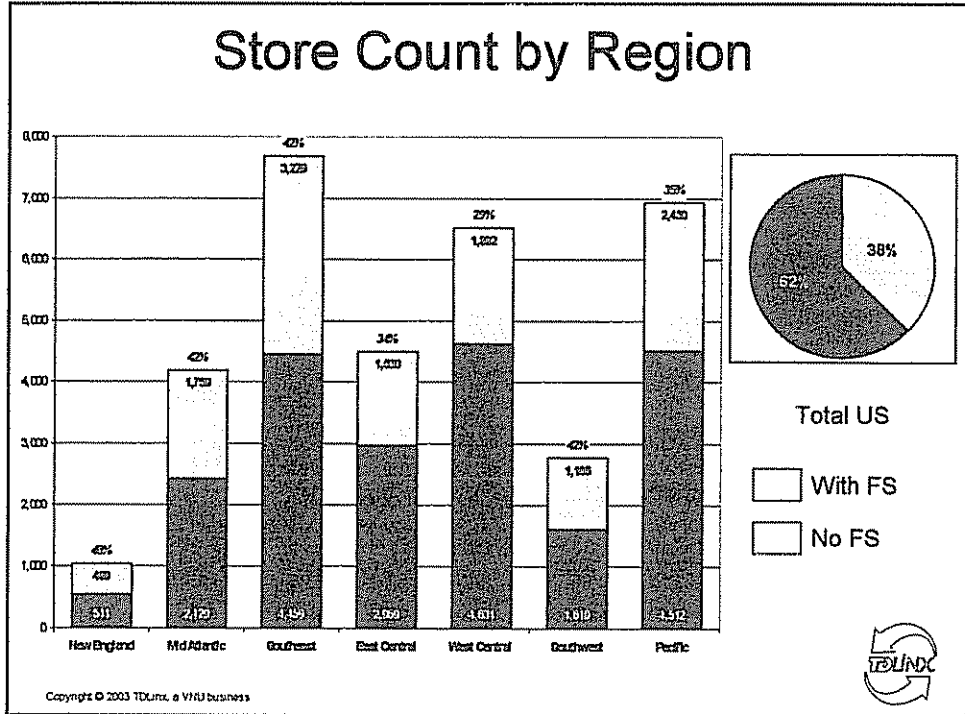
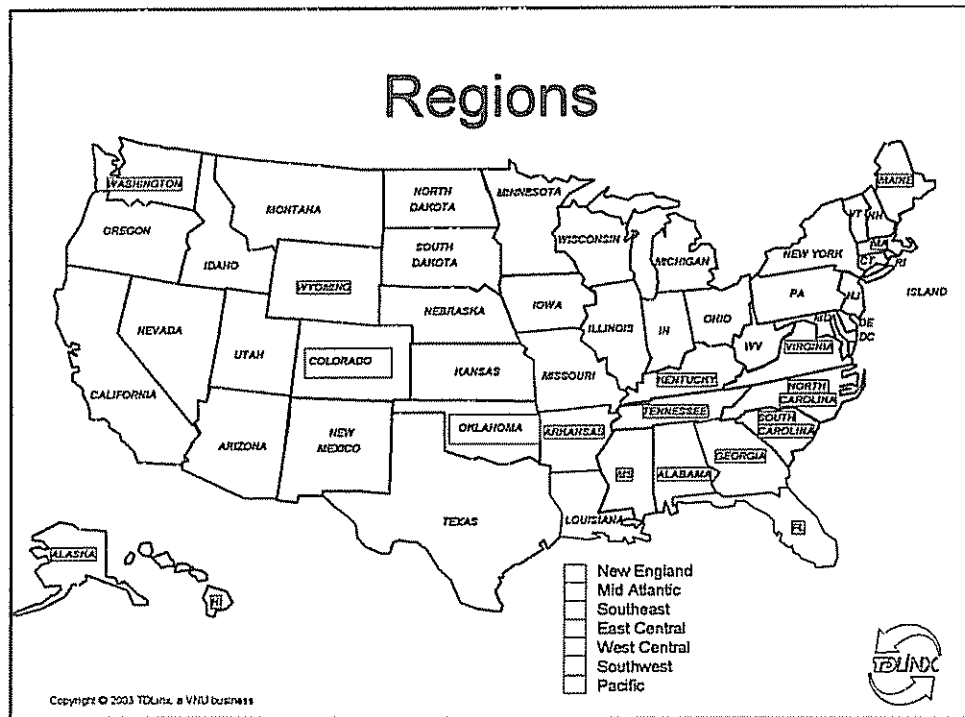
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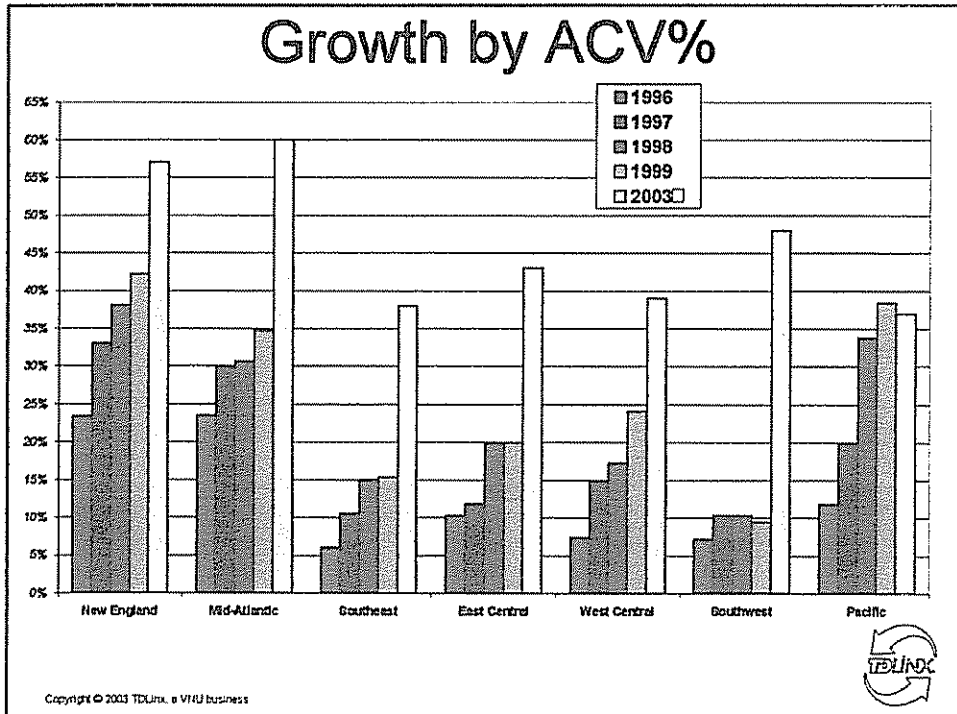
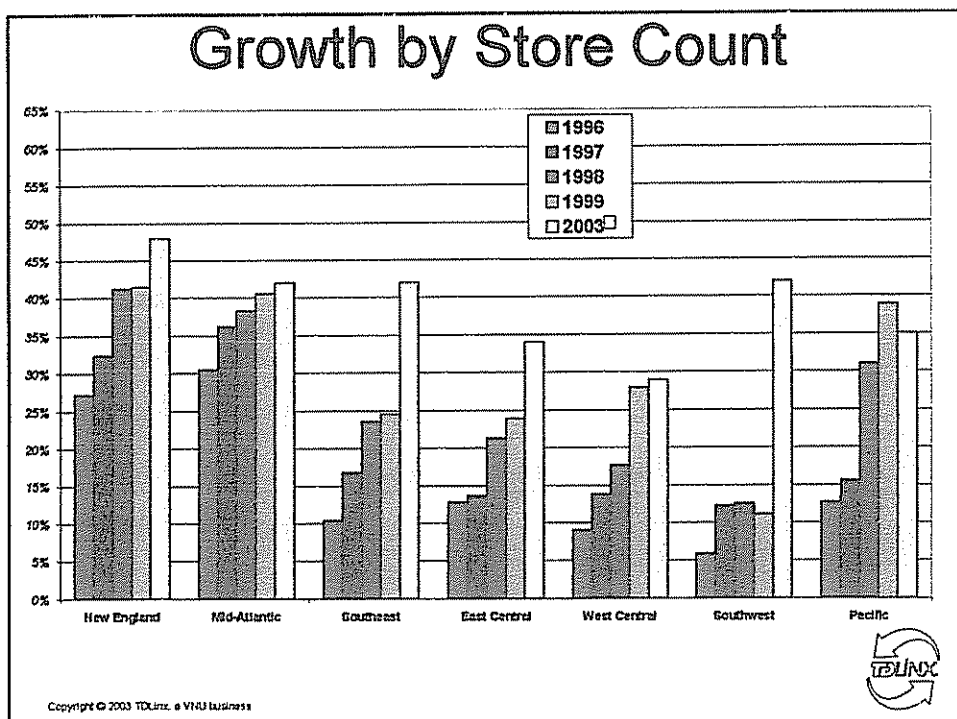
## Supermarket Card-Based Marketing

- 12,849 Supermarkets With Card-based Frequent Shopper Programs
- Represents
  - 38% of Supermarkets
  - 42% of the Total ACV



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## Missing Retailers 1999

<u>Southwest</u>	<u>Southeast</u>	<u>New England</u>	<u>East Central</u>	<u>West Central</u>	<u>Pacific</u>	<u>Mid-Atlantic</u>
HEB	Kroger	Demoulas	Kroger	Hy-Vee	Albertsons	Giant
Albertsons	Publix	Hannaford	Meijer	AWGKC	Stater	Tops
Wal-Mart	Winn-Dixie	SuperValu	Winn-Dixie	Kroger	ABCO	Pathmark
Brookshire	Ingles	Shaws	Nash-Finch	Mega-Mart	Fred Meyer	King Kullen
Winn-Dixie	Lowe's		SuperValu			
Fleming			Fleming			

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## New Landscape 2003

<u>Southwest</u>	<u>Southeast</u>	<u>New England</u>	<u>East Central</u>	<u>West Central</u>	<u>Pacific</u>	<u>Mid-Atlantic</u>
HEB	KROGER	Demoulas	KROGER	Hy-Vee	ALBERTSONS	GIANT
ALBERTSONS	Publix	Hannaford	Meijer	AWGKC	Stater	TOPS
Wal-Mart	WINN-DIXIE	SuperValu	WINN-DIXIE	KROGER	ABCO	PATHMARK
BROOKSHIRE	Ingles	SHAWS	Nash-Finch	Mega-Mart	FRED MEYER	King Kullen
WINN-DIXIE	LOWES		SuperValu			
Fleming			Fleming			


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2003



## What's the Meaning of This?




Ask Carlene *Thiss*...

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### Store Count by Region

	<u>Count</u>	<u>Percent of Region</u>
New England	513	48%
Mid Atlantic	1,808	42%
Southeast	3,318	42%
East Central	1,572	34%
West Central	1,944	29%
Southwest	1,198	42%
Pacific	2,497	35%
 Total US	 12,849	 38%



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## Growth by Store Count

REGION	1996	1997	1998	1999	2003*
New England	27.2%	32.4%	41.3%	41.5%	48%
Mid-Atlantic	30.5%	36.2%	38.3%	40.6%	42%
Southeast	10.4%	16.8%	23.6%	24.6%	42%
East Central	12.8%	13.7%	21.3%	23.9%	34%
West Central	9.0%	13.8%	17.7%	28.0%	29%
Southwest	5.9%	12.2%	12.6%	11.1%	42%
Pacific	12.7%	15.6%	31.1%	38.9%	35%

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## Growth by ACV%

REGION	1996	1997	1998	1999	2003*
New England	23.4%	33.0%	38.1%	42.2%	57%
Mid-Atlantic	23.5%	29.9%	30.7%	34.7%	60%
Southeast	6.0%	10.6%	15.0%	15.4%	38%
East Central	10.2%	11.8%	20.0%	20.0%	43%
West Central	7.4%	14.9%	17.3%	24.1%	39%
Southwest	7.2%	10.3%	10.3%	9.5%	48%
Pacific	11.8%	20.0%	33.8%	38.4%	37%

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# EXHIBIT E

EXHIBIT E

## **Supermarket Card-Based Marketing Update**

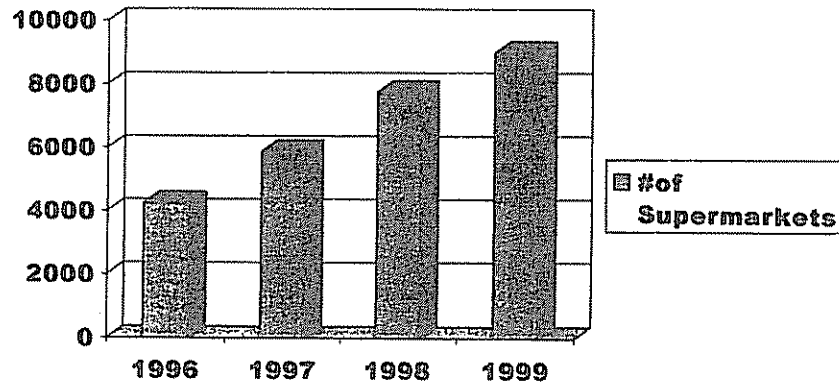
**GEMCON  
1999  
Barry Kotek**

## **Suupermarket Card-Based Marketing Update**

- 1st Quarter 1999 - 8,999 Supermarkets in the US have card-based frequent shopper programs.
- This represents 29.6% of all US supermarkets.
- There was a 16% increase in store count 1Q 1999 over 1Q 1998.



## Growth in Frequent Shopper Programs



## Supermarket Card-Based Marketing Update

- Approximately 25% of the total food store sales (ACV) comes from retailers with frequent shopper programs.

## Growth by Region (Store Count)

<u>Region</u>	<u>1<sup>st</sup> Q 1996</u>	<u>1<sup>st</sup> Q 1997</u>	<u>1<sup>st</sup> Q 1998</u>	<u>1<sup>st</sup> Q 1999</u>
<u>New England</u>	27.2%	32.4%	41.3%	41.5%
<u>Mid-Atlantic</u>	30.5%	36.2%	38.3%	40.6%
<u>Pacific</u>	12.7%	15.6%	31.1%	38.9%
<u>Southeast</u>	10.4%	16.8%	23.6%	24.6%
<u>East Central</u>	12.8%	13.7%	21.3%	23.9%
<u>West Central</u>	9.0%	13.8%	17.7%	28.0%
<u>Southwest</u>	5.9%	12.2%	12.6%	11.1%
<u>Total Store Count</u>	4,235	5,867	7,753	8,999

## Growth by Region (ACV)

<u>Region</u>	<u>1<sup>st</sup> Q 1996</u>	<u>1<sup>st</sup> Q 1997</u>	<u>1<sup>st</sup> Q 1998</u>	<u>1<sup>st</sup> Q 1999</u>
New England	23.4%	33.0%	38.1%	42.2%
Mid-Atlantic	23.5%	29.9%	30.7%	34.7%
Pacific	11.8%	20.0%	33.8%	38.4%
Southeast	6.0%	10.6%	15.0%	15.4%
East Central	10.2%	11.8%	20.0%	20.0%
West Central	7.4%	14.9%	17.3%	24.1%
Southwest	7.2%	10.3%	10.3%	9.5%

## Regional Program Growth

- The store counts are increasing in the Mid-Atlantic, Pacific, East Central and West Central regions, due to the rollout of Kroger, Safeway and various wholesaler programs.
- Little or no growth has occurred in New England, the Southwest, and Southeast.

## Missing Retailers

<u>Southwest</u>	<u>Southeast</u>	<u>New England</u>	<u>E. Central</u>	<u>W. Central</u>	<u>Pacific</u>	<u>Mid- Atlantic</u>
HEB	Kroger	Demoulas	Kroger	Hy-Vee	Albertsons	Giant
Albertsons	Publix	Hannaford	Meijer	AWGKC	Stater	Tops
Wal-Mart	Winn-Dixie	Supervalu	Winn-Dixie	Kroger	ABCO	Pathmark
Brookshire	Ingles	Shaws	Nash-Finch	Mega-Mart	Fred Meyer	King Kullen
Winn-Dixie	Lowe's		Supervalu		Cert. Grocer	White Rose
Flemming			Fleming			

## **What is the Future of Card-Based Marketing Growth?**

- All recent consolidations include divisions with programs.
  - Ahold (Bi-Lo, Finast --YES; Pathmark, Giant -- Not Yet)
  - Kroger (some Divisions and Ralphs --YES)
  - Albertsons (American Stores --YES)

## **What is the Future of Card-Based Marketing Growth?**

- Wholesalers have lots of stores that don't have frequent shopper programs.
- These programs can be expensive to run and may not pay out if not properly operated.
- Most retailers are still primarily using electronic TPR's, which most consumers think are boring.

## **What is the Future of Card-Based Marketing Growth?**

- Manufacturers are just starting to get involved with these programs -- will they see results that will warrant expansion of their trade and brand spending?
- Privacy issues will always be there, hopefully not leading to government intervention.

## **Crystal Ball Prediction**

- The store count will grow to at least 10,000 stores by the 1st Q of 2,000.
- More manufacturers will get involved directly with retailers programs or through third-party vendors.
- Retailers will do a better job mining data.
- Non-grocery retailers will tie into supermarket programs.

# EXHIBIT F

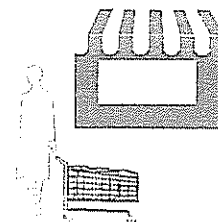
ACNielsen's  
7th Annual  
Frequent Shopper  
Survey Update  
*Powered by Homescan*

Total US Overview

Prepared by: Grace Hyatt  
February, 2003



ACNielsen's  
7th Annual Frequent Shopper  
Survey Update hopper

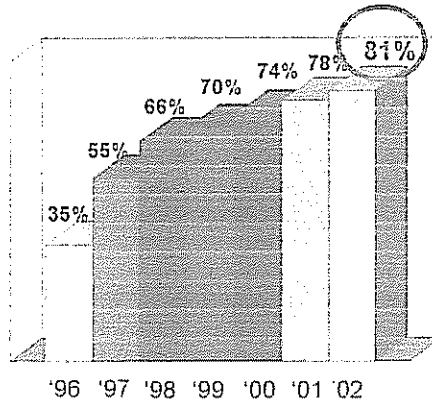


- Time Frame: October/November 2002
- Respondents: Homescan Consumer Panel  
*Total US and Market Level Data Available*
- Response Rate: 83%



**81% of all U.S. households currently participate in at least one Frequent Shopper Program - more than doubling since 1996**

% citing YES

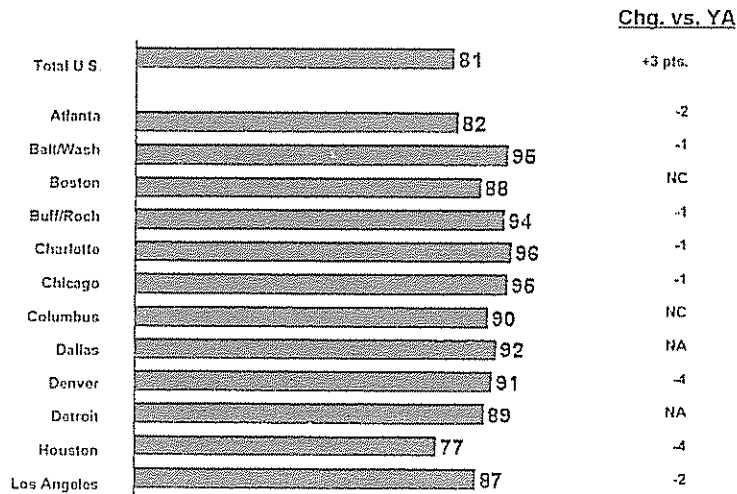


Q: Are you, or any member of your household, currently a member of a grocery store's Preferred Card/Frequent Shopper Program?

3

ACNielsen  
A Nielsen Company

**Of the 23 markets available, significant growth was noted in ....**

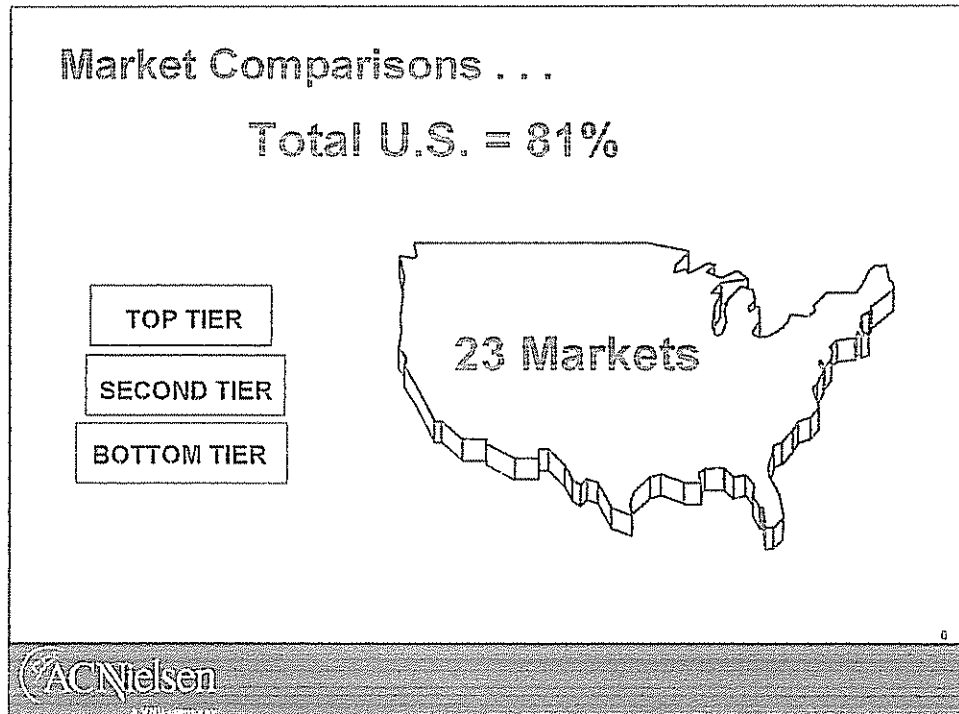
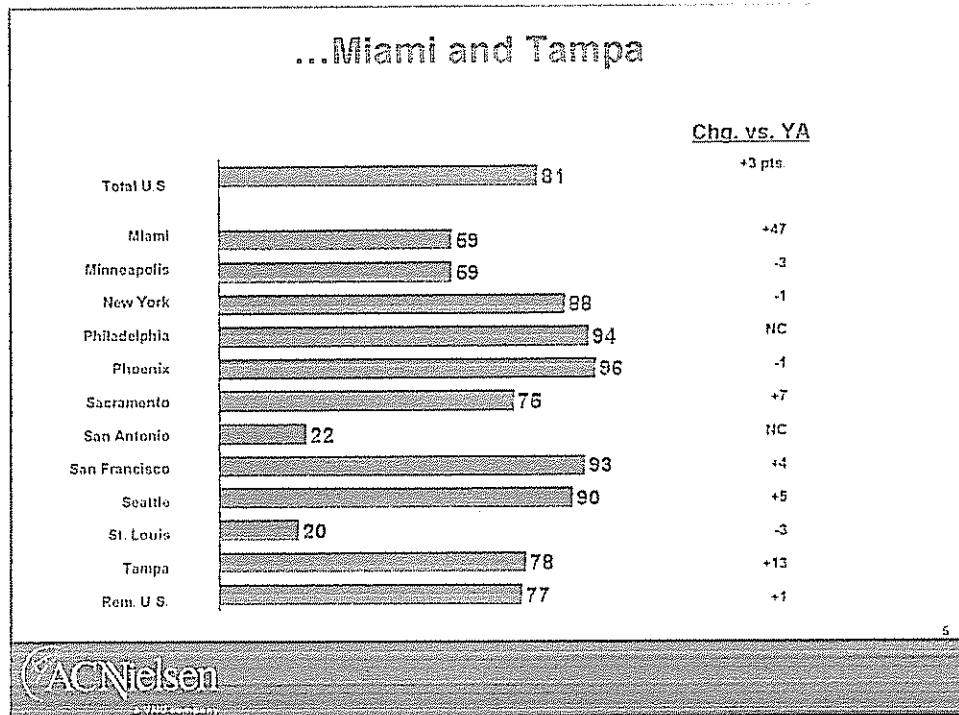


Continued →

4


ACNielsen  
A Nielsen Company






<u>Top Tier Markets &gt; 90%</u>		<u>vsYA</u>	<u>New Program Added</u>
• Charlotte	96%	-1	Winn Dixie
• Phoenix	96%	-1	Albertson's
• Balt/Wash	95%	-1	
• Chicago	95%	-1	
• Buff/Roch	94%	-1	QFC
• Denver	91%	-4	
• Philadelphia	94%	NC	
• San Francisco	93%	+4	Albertson's
• Dallas	92%	NA	

7

 AC Nielsen  
A Nielsen Company

<u>Second Tier Markets &gt; 80%</u>		<u>vsYA</u>	<u>New Program Added</u>
• Seattle	90%	+5	Albertson's, QFC
• Columbus	90%	NC	
• Detroit	89%	NA	
• Boston	88%	NC	
• New York	88%	-1	
• Los Angeles	87%	-2	Albertson's
• Atlanta	82%	-2	Winn Dixie

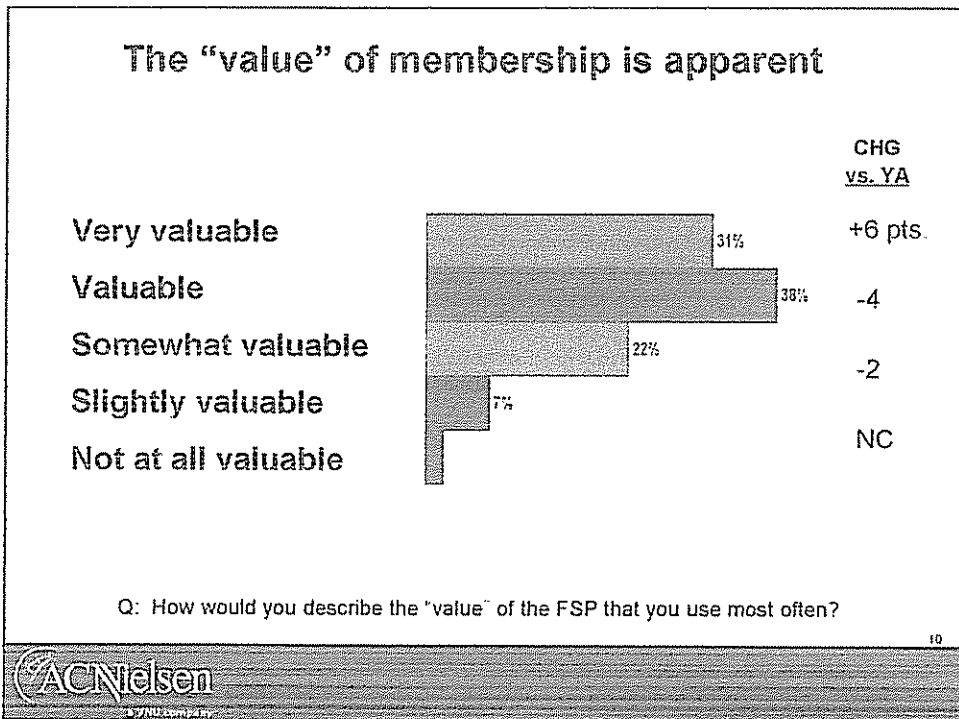
8

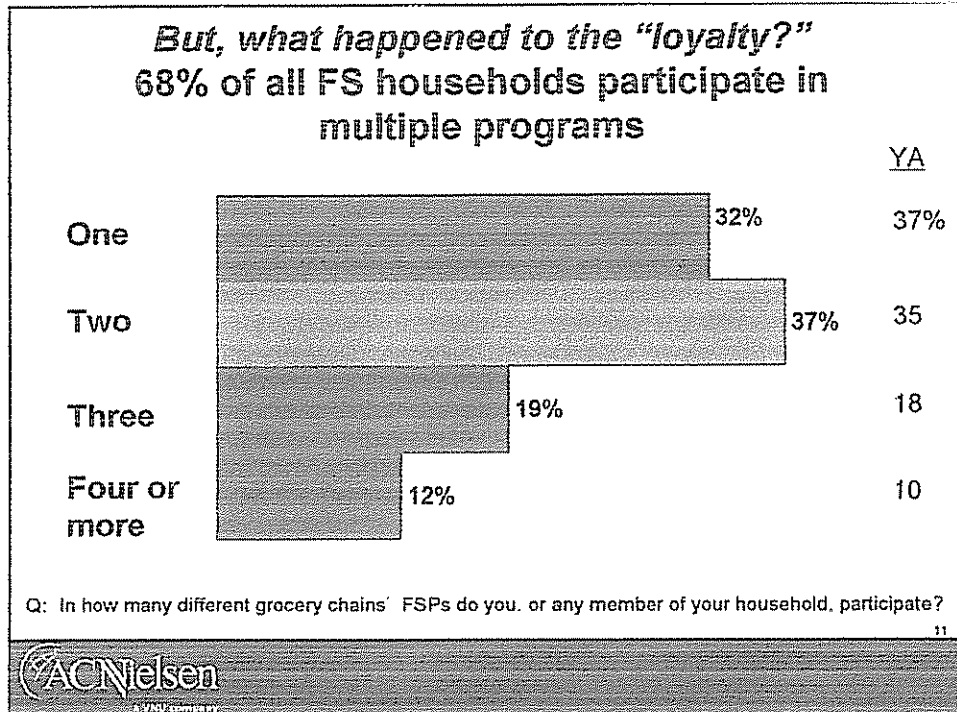
 AC Nielsen  
A Nielsen Company

<u>Bottom Tier Markets &lt; 80%</u>		<u>vsYA</u>	<u>New Program Added</u>
◦ Tampa	78%	+13	Albertson's, Winn Dixie
◦ Houston	77%	- 4	
◦ Sacramento	75%	+ 7	Albertson's, Smart & Final
◦ Miami	59%	+47	Albertson's, Winn Dixie
◦ Minneapolis	59%	+ 3	
◦ San Antonio	22%	NC	Randall's
◦ St. Louis	20%	- 3	

9

AC Nielsen





**Frequent Shopper Program is one of top 3 reasons for shopping in chain where card is used**

Rank		% HHs Responding	CHG vs. YA
1	Convenient Location	69%	-1 pt
2	Store Deals	56	+1
3	Frequent Shopper Program	47	+5
4	Assortment of Merchandise	39	-2
5	Store Cleanliness	36	-3
6	Everyday Low Price	30	NC
7	Quality of Fresh Produce	29	-1
8	Quality of Fresh Meat	29	-1
9	Customer Service	19	-1

Q: What are the key reasons for shopping in the grocery chain where you use your FS card most often? (Multiple responses accepted)

12

**ACNielsen**  
 A VNU company

**Frequent Shopper Program less important when asking all consumers about primary grocery store**

<u>Rank</u>		<u>% HHs Responding</u>
1	Convenient Location	72%
2	Store Deals	52
3	Everyday Low Price	52
4	Assortment of Merchandise	49
5	Store Cleanliness	40
6	Quality of Fresh Produce	36
7	Quality of Fresh Meat	34
8	Frequent Shopper Program	27
9	Customer Service	24

Q: What are the key reasons for shopping in the grocery store where you shop for the majority of your household groceries most often? (Multiple responses accepted.)

13



**#1 reason for shopping in primary grocery store is convenient location... FSP moves to 5<sup>th</sup>**

<u>Rank</u>		<u>% HHs Responding</u>
1	Convenient Location	36%
2	Everyday Low Price	22
3	Assortment of Merchandise	15
4	Store deals	11
5	Frequent Shopper Program	4
6	Quality of Fresh Meat	3
7	Customer Service	2
8	Store Cleanliness	2
9	Quality of Fresh Produce	2

Q: What is the one primary reason for shopping in the grocery store where you shop for the majority of your household groceries most often? (Only one response accepted.)

14





**Retailer information available in 23 markets**

<u>Atlanta</u>	<u>Balt/Wash</u>	<u>Boston</u>	<u>Buff/Roch</u>	<u>Charlotte</u>	<u>Chicago</u>	
Bi-Lo	Food Lion	Big Y	QFC*	Bi-Lo	Dominick's	
Kroger	Giant Food	Price Chopper	Tops	Food Lion	Eagle	
Winn Dixie*	Safeway	Shaws	Wegmans	Harris Teeler	Jewel	
	Super Fresh	Star		Winn Dixie*		
<u>Columbus</u>	Weis Markets	Stop & Shop	<u>Detroit</u>	<u>Houston</u>	<u>Los Angeles</u>	
Big Bear	<u>Dallas</u>	<u>Denver</u>	Farmer Jack*	Gerland's	Albertson's*	
Giant Eagle	Albertson's*	King Soopers	Kroger*	Kroger	Ralphs	
Kroger	Kroger*	Safeway		Randall's	Smart & Final	
					Vons	
<u>Miami</u>	<u>New York</u>	<u>Philadelphia</u>	<u>Phoenix</u>	<u>Sacramento</u>	<u>San Antonio</u>	<u>San Francisco</u>
Albertson's*	A & P	Acme	Albertson's*	Albertson's*	Randall's*	Albertson's*
Winn Dixie*	Foodtown	Giant Food	Bashas'	Ralphs		Safeway
	Pathmark	Pathmark	Fry's Foods	Safeway		
<u>Minn</u>	ShopRite	ShopRite	Safeway	Smart & Final*	<u>Seattle</u>	<u>Tampa</u>
Rainbow	Stop & Shop	Super Fresh	Smith's/Smitty's	<u>St. Louis</u>	Albertson's*	Albertson's*
	Waldbaums	Weis Market		Kroger*	QFC*	Kash n' Karry
				Safeway		Winn Dixie*

15

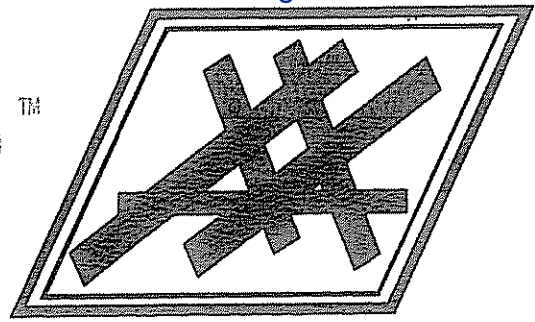


# EXHIBIT G

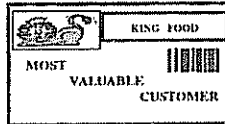
# In-Store™

The Newsletter of In-Store Marketing & Business

August 1999



## ELECTRONIC MARKETING



**News America Marketing (NAM), has formed strategic partnerships with planet U and SoftCard Systems, Inc.**

News America will acquire a 30% interest in San Francisco-based planet U, an internet-based couponing company that enables consumers to select packaged goods coupons via the Internet for in-store redemption; and a 22% interest in SoftCard Systems, Inc. an Athens, Georgia-based electronic promotions company that facilitates the integration of traditional at-shelf retail couponing and loyalty-shopping cards with smart card technology. These investments complement NAM's overall strategy—to be a leader in e-commerce and targeted marketing opportunities while continuing to expand its core business.

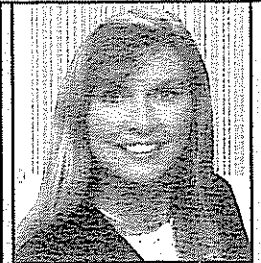
*We're trying to set up an interview with Dominick Porco, who runs the NAM division. Lachlan Murdoch, SREVP for News Corporation said, "With these new partnership agreements, we can leverage our existing business through the powerful capabilities of the Internet to deliver one-to-one marketing solutions on a mass scale, while at the same time providing vital marketing information to both retailers and manufacturers — taking e-commerce to the next level."*

NAM is best known for its home delivered, freestanding insert (FSI) business, *SmartSource Magazine*, and in-store media products and services such as the SmartSource Coupon Machine which reaches over 200 million consumers weekly. As a result of these two transactions, NAM will establish itself as a single source consumer promotion venue for advertisers, specifically package goods manufacturers.

"Through this partnership with News America Marketing, planet U's products and services will be represented by the premiere sales organization in the marketing services industry," said Bill Purcell, Chief Executive Officer and founder of planet U.

Ken Powell, President and Chief Executive Officer of SoftCard Systems, said, "With NAM as a strategic partner SoftCard is now poised to modernize the electronic promotion and coupon distribution industry."

SoftCard currently combines the use of an at-shelf local data storage unit and a smart card, capable of storing over 200 coupons along with customer loyalty information. The smart card is issued by retailers to individual customers, the same process currently in place for check cashing cards or loyalty retailer cards. At the end of a shopping trip, the consumer presents the smart card to the cashier and, as the consumer's purchases are scanned at the register, the smart card interfaces with the cash register and awards the consumer their discount.



### DEAR READER

I really like hearing from our readers. Especially when they say nice things like Sheldon Sosna—see the next page. I like his views, too. Supermarkets just may adapt to yet another competitive channel, and win in the end. I hope so.

The News America information is very interesting. We see four big vendors lining up, creating conglomerates of smaller companies. We can't talk much about them yet, but News Corp. will be among the biggest. The reason it's significant in my mind is that it means the electronic marketing industry is viable, and that we will truly see some exciting new forms of TechnoMarketing in the very near future.

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## Highlights In This Issue

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- Why Electronic Coupon Clearing Isn't Happening 4
- Coupon Studies From the Archives 4,5
- Peapod's "Consumer Directions" 5



August 1999

In-Store™

**LETTER TO THE EDITOR:**

I must say that I found your June issue to be the best I've ever read. Really great!

But I think we must all remember that, while technology is changing faster than even you can chronicle it, people are not changing very fast at all. Over the years I have developed some theories of shopping behavior that have, so far, never failed.

One theory is that when people are shopping, they don't want to be bothered by anything that interferes with the process of tossing things in a basket. That's why Turner's Checkout TV failed, and why VideOcart went belly up.

The second theory I have developed is that shoppers will always finally settle on doing the easiest thing.

Oh, they may work a little harder for awhile to achieve a significant reward, but their enthusiasm seldom lasts. That's why so many people complain about Frequent Shopper programs, and the ones that work best are the ones that are the easiest for a shopper to "do."

But I do not think that real supermarkets will ever lose out to the Peapods, Streamlines or HomeGrocers. What they will do to survive is just what they have always done to win out over box stores and club stores and all of the other alternative retail formats that have come after the food business. They will co-opt the best of the new format and simply add it to their own arsenal of merchandising expertise. And they will have shoppers in their corner.

Because the third theory I want to offer — and the one that I think is most important for brick and mortar supermarkets — is that we are social animals.

The supermarket is a social venue. You get to talk to people, discuss catfish with a seafood guy, chat with neighbors in the checkout line, complain to a deli lady about the price of roast beef.

The supermarket of the future, I am convinced, is going to be a brick and mortar organization that does everything a virtual supermarket does: online ordering, timely delivery, easy coupon redemption, the whole nine yards. They will, in the end, beat out the supermarkets that live only in cyberspace.

Cordially, Shel Sosna, Supermarket Associates, Inc.

In-Store™, the newsletter of in-store marketing and promotion, is a publication of Retail Systems Consulting, a leading supermarket technology consulting company. Editor Carlene Thissen, president of RSC since 1989, has more than 20 years of experience in the supermarket business. Call (941-352-4422), fax (941-352-4421), email (rsc@webstop.com) or send us news you'd like to see covered in In-Store™. 5091 Tamarind Ridge Drive, Naples, FL 34119. Check out our website at <http://rsc.webstop.com/rsc.html>.

News America Marketing, a division of News Corporation Limited, was formed in 1997 through News America FSI's acquisition of ACTMEDIA.

The company is comprised of five divisions: FSI, In-Store, Merchandising Services, On-Call and International.

News Corporation has total assets as of March 31, 1999 of approximately US\$36 billion and total annual revenues of approximately US\$14 billion. News Corporation's diversified global operations include the production and distribution of motion pictures and television programming; television, satellite and cable broadcasting; the publication of newspapers, magazines, books; the production and distribution of promotional and advertising products and services; the development of digital broadcasting; the development of conditional access and subscriber management systems; and the creation and distribution of popular on-line programming.

**Contacts**

James R. Platt Press Relations, News Corporation 212-852-7083

Bob Egan Exec. Vice President, planet U 415-979-0600

Ken Powell President & CEO, SoftCard Systems, Inc. 706-769-7000

Twelve pro teams are signing up fans to swipe cards in kiosks at each game they attend, like supermarket shopper cards. With each swipe, fans often are asked additional questions by the kiosk computer screen.

Answers to questions such as whether they own pets have helped lure pet retailers to advertise at some stadiums. In exchange for answering the questions, fans receive prizes such as free soft drinks or game tickets. Prizes for frequent card users include drawings for World Series tickets and cruises.

One-fourth of Spurs fans swipe loyalty cards at every game, says Todd Caven of AIM Technologies, which administers fan card programs.

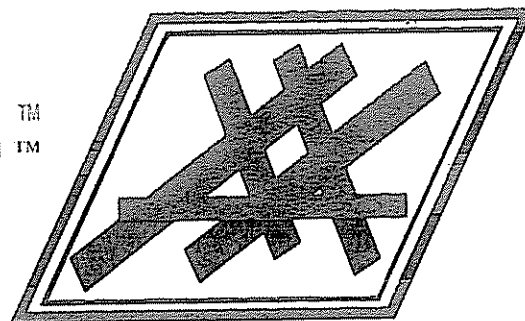
In four years, teams have amassed data on one million fans. Four more pro teams are expected to offer cards this month, and most are expected to have them within five years. Team officials say they use the information only to make games more fun for fans. "Fans are instantly rewarded every time they swipe," says David Alioto, marketing chief for the Athletics.

Privacy experts don't like it. "This could be a hidden-ball trick," says Evan Hendricks, editor of *Privacy Times*. "The information could easily be used for other purposes." The teams say individual information is not sold to marketers. But direct mail and e-mail from teams to fans sometimes include targeted pitches from sponsors.

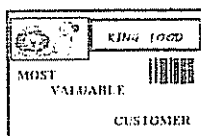
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# In-Store<sup>TM</sup>

The Newsletter of In-Store Marketing & Business  
November 1999



## ELECTRONIC MARKETING



Valassis Communications, Inc. is an established leader in the marketing services industry. Valassis has created a strategic growth plan to become the nation's premier marketing services firm. Its product line-up features free-standing newspaper inserts, sampling programs and other consultative marketing services. Its customer base includes consumer package goods companies and franchise retail operators in the U.S. and Canada. The company recently purchased interests in Save.com, Independent Delivery Services (IDS), Relationship Marketing Group (RMG) and Net's Best.

Alan F. Schultz is chairman of the board, president and chief executive officer at Valassis Communications. Schultz is the head of the leadership team which is responsible for the development of growth strategies and new business opportunities, as well as overseeing the day-to-day operations of the company. Since joining Valassis in 1984, Schultz has worked in several different areas of the company including finance and operations, marketing, and sales. He played a key role in the launch of VCI's targeted marketing division, was instrumental in the development of the company's targeting services, and has also spearheaded recent industry initiatives which have aided in growing the FSI industry.

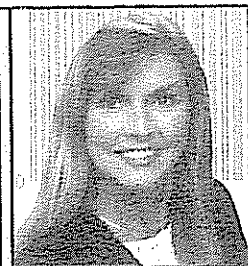
Barry and I spent some time with Al this month to discuss the company's direction:

*Valassis is a predominant player in the FSI market. How is the FSI business going this year?*

The FSI business is having a great year. Participation by CPG companies has been very strong. We're also seeing the addition of some new categories, especially prescription pharmaceutical advertising and participation from e-commerce companies. So, when you combine the new categories and the increased participation from consumer packaged goods (CPG) companies, the business is very healthy. We're actually anticipating that unit growth in the FSI business will be up about 5% in 1999 versus 1998.

You might ask yourself "Why would that be? FSIs have been around for a long time." If you think of the opportunity that CPGs have to reach consumers on a real mass basis, it seems like it's becoming more and more limited. FSIs reach 58 million households 43 or 44 times a year.

The only event that comes close to reaching as many households as FSIs, is the Superbowl, which I believe about 40 some million households tune in to. So, when you think about the FSI, every Sunday it's an advertising event bigger than the Superbowl.



## DEAR READER

Those of you who are long-time subscribers may remember the February 1997 issue where we interviewed Dominick Porco, president of News America Marketing. News America had just purchased Act-Media and the interview gave our readers background as to why an FSI company was expanding beyond Sunday inserts. This month In-Store had the opportunity to interview the CEO of the other main FSI company -- Valassis.

Over the past six months Valassis has been making significant acquisitions in the electronic marketing, Internet and home shopping arenas.

(continued on page 2)

## Highlights In This Issue

- ♦ Interview with Al Schulz, Valassis CEO
- ♦ IRI Introduces "e-Scan"
- ♦ Kroger Alabama Discontinues Online Shopping
- ♦ European Privacy Issues

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According to Al Schultz, Valassis, CEO, they are just beginning to form a retail division that will provide services to grocery retailers.

This strategy appears to be similar to what Catalina has tried to accomplish with Supermarkets Online and also with its retailer loyalty program. News America, a division of News Corp., may be doing something similar with its recent investments in planetU, SoftCard and CCMI. All three companies should have the resources available to accomplish the plan, even though Catalina is about half the size of Valassis and Valassis is only a portion of the size of Rupert Murdoch's empire.

Al Schultz knows that all three companies have similar strategies and that there is going to be a "dog fight" for consumer, manufacturer and retailer interest.

#### *What about Sampling and your other traditional services?*

The Sampling business is very strong. It just exploded. Last year we grew the sampling business over 80%. We're targeting 20% growth this year and it looks as if we're on track. We're seeing more and more sampling, and more and more customer categories.

We're doing a fair amount of jobs for e-commerce companies, delivering diskettes etc. We also did a CPG sampling program that might have been the most complicated job in the history of sampling. It was for a beauty care product for a CPG manufacturer. We tied in with hundreds of retailers for a zoned newspaper distribution. We had individual newspaper zones in unique bags tying in with retailers. So there were thousands of different versions of this sample that went out, tying into a variety of different retailers.

It was a co-equity piece, with Pantene, building on the equity of the local retailer. It was a logistical challenge, but it came off unbelievably well.

For the first time we actually split some zones, so half of the zone was getting one retailer and the other half was getting another retailer. We've never done that before. The other area, Retail Services, primarily services franchise retailers, meaning any type of retail that is franchised, e.g. McDonald's, Pizza Hut, Lens Crafters.

He is confident that Valassis has a successful strategy to win. (Want to bet Catalina and New Corp. think they do, too?)

From our perspective the winner will have to find a way to improve the consumer's grocery shopping experience, while improving the retailer's loyalty and profitability and the manufacturer's brand loyalty and promotion efficiency. These cannot occur independently in the future. The vendor(s) that can pull together all three will be the winner. It will be very interesting watching these companies as their strategies progress.

Barry didn't write a back page this month because he and I both worked on the Al Schultz article. Also, we want to cover the issue of print-at-home Internet coupons and we still have a little research to do. Look for that article next month.

Mark your 2000 calendars for the next GEMCON. It will be held on March 22-24, 2000, in New Orleans. A party city for a celebration year! FMI is our partner this year, in addition to GMA.

FMI recently published a new publication in which you might be interested. I researched and wrote it, with the help of Robert Hemphill. The document is called "Electronic Promotions - State of the Industry." It's a baseline-setting review of what's happening in the industry today, and the challenges and issues of the future. Price is \$20 for members, \$40 nonmembers. Call 202-452-8444 to order.

#### *Have a Great Thanksgiving !!!*

In-Store™, the newsletter of in-store marketing and promotion, is a publication of Retail Systems Consulting, a leading supermarket technology consulting company. Editor Carlene Thirion, president of RSC since 1989, has more than 20 years of experience in the supermarket business. Call (941) 352-4422, fax (941) 352-4421, email (rsc@webstop.com) or send us news you'd like to see covered in In-Store™ 5091 Tamarind Ridge Drive, Naples, FL 34119. Check out our website at <http://rsc.webstop.com/rsc.html>

We do over \$100 million today in that type of retail business, and we've targeted that business to grow 15%.

*We've noticed your company has purchased an interest in a few companies recently: IDS, a home shopping software company that enables retailers to compete with "consumer direct," and RMG (Relationship Marketing Group) a direct-delivered shopping list of targeted offers that are automatically deducted at the point-of-sale. Also, Save.com, an Internet-based coupon delivery company was purchased within the last year. Can you explain the strategy behind this activity?*

We've identified a few key areas of interest to us -- Internet, E-commerce, and something we call CARS - Customer Attainment and Retention System. This system will help grocery retailers use their frequent shopper data, which details purchase behavior, to develop stronger relationships and loyalty with their customers. These acquisitions all fit very nicely into this plan. The IDS acquisition, as you know, is home shopping software and a pick and pack system that retailers will use - that's the E-Commerce element. RMG is really a base to build upon for our CARS system.

Save.com, is a network approach to deliver coupons over the Internet, directly in consumers' households on their printers.



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Ideally we'd love to be able to put the Save.com banner on retailers' web sites as additional value for their consumers.

All this is tied to a central database. We're trying to develop each of these businesses independently but with a common architecture. At some point in the future, the database and E-commerce elements all interact within the Internet envelope, and can become one package.

*Valassis has traditionally been an FSI and sampling company, both of which are sold to CPG manufacturers. Why are you moving into the retail space?*

We have traditionally focused on our CPG customer base, but starting 10 years ago we entered the franchise retail arena where we do over \$100 million worth of business annually. And we have done a little business with grocery retailers.

We feel that what we do with CPGs is so much related to grocery retailers that we want to embrace grocery retailers as customers. We think there is a huge opportunity for us to grow their sales, grow their market share and improve their profitability. At the same time we can benefit

*How big of a business do you see this being?*

The E-commerce/IDS business can obviously be a huge. I sit here with a WebVan prospectus on my desk. They are evidently planning on spending a billion dollars on online shopping to compete with grocery retailers. We personally believe that grocery retailers will defend their turf. They've experienced erosion in market share from warehouse clubs, from mass merchandisers, from specialty stores, and from category killers. I just don't think they can afford to lose online shoppers. You know the statistics - the average shopping basket is about \$26 and the average online trip is about \$110. I don't think the existing grocery retailers can afford to lose their best customers.

Right now grocers are focused on Y2K. I think once they get beyond that, they're going to need a service like IDS.

Clearly, it's the best service and software out there today to help grocery retailers compete for online customers and defend their position against the WebVans, Peapods and the Streamlines. That in itself is a huge business. I really believe the whole CARS database marketing concept is, long term, probably a \$500 million business opportunity. The dollars in this arena are staggering!

And I think grocery retailers are in a position where they need to be concerned about building loyalty to their store instead of loyalty to specific brands. There's a way that they can significantly improve their profitability and better manage markdowns.

The Internet is projected to move from 60 - 65 million users today to around 175 million users in 2003. I think that Internet usage is going to continue to grow, and that the opportunity for Save.com is also a substantial one.

All three of these individually are very big opportunities for our company. As they all come together with this common architecture in the future, clearly it has the potential to be bigger business than we have today. (Right now our sales for 1999 are projected by the analysts to be in the neighborhood of \$790 million.)

*Do you think it will be difficult to change the mindset of grocery retailers so they understand that you are offering a product FOR THEM?*

I think that's a significant challenge for us. Clearly our revenue to date has been driven primarily by CPGs. Retailers are going to say: "You can't serve both masters. You've got to serve the CPG or the retailer." We don't really believe that's the case. We believe we can serve both if we offer the right products and services, and we set up dedicated divisions to do exactly that.

CARS will be within our Retail Services group, which is focused on the retailer. We want to serve the retailers' objectives. But I'm smart enough, and I've met with enough retailers, to know that most retailers are from Missouri. So it's not what we say and not how we position ourselves, it's what we do. I think the most important thing is that we show retailers with our actions that we're really putting their best interests and their objectives first. We'll just have to prove that to them over time.

We're going to have to demonstrate that we're building loyalty to the store and not to a brand. Many people have said that you can't do that.

They say: "The minute you bring CPG revenue into the CARS program you will have to water down the retailer's objectives." Well, I don't believe that to be the case. An example would be if the retailer wants to sell Pepsi more than they do Coke because they make a greater profit on Pepsi, then I can certainly go to Pepsi and say why don't you participate with this retailer and support this program.

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In that case, it benefits Pepsi in terms of improving their business, but it's also what the retailer wants to accomplish. So if we put the retailers' objectives first, and then proactively go out and seek CPGs that complement the retailer's objectives, I think we'll be able to be successful.

*The chronological sequence of what you just described even indicates that you're putting the retailer first. You find out what the retailer wants, and then go to the appropriate manufacturer to fill that need.*

That's right. It's the philosophy and the methodology that you use to build the program. If you go to the CPGs first, it won't work for the retailers. You have to start with the retailers' objectives.

*We think there may be a few players lining up with a similar strategy, pulling together smaller companies in the electronic marketing arena. (News America with ActMedia, planei U, SoftCard and CCMI and Catalina with Supermarkets Online, Market Logic and DCI.) What is your assessment of their activities?*

I think they see the same opportunities and needs we see. This is obviously something that retailers need. I think those other companies are trying to get into the same space we're trying to get into for the same reasons. They know there is a tremendous desire for these types of products. It doesn't surprise me, and I think it's going to be a real "dog fight."

The reality of the CARS program concept is that I don't think anyone has really developed one today. I don't think anybody has a stake in the ground. Each company has core competencies that position them to potentially be a leader in that area. We'll see how things play out over the next two or three years.

*What are the core competencies of Valassis that you think will give you an advantage?*

We have experience with database work. We have all the zoning capabilities every newspaper in the country has in a database. We use that database and manipulate that database. We purchase significant amounts of data to do our market list targeting, distribution patterns, and market list development. We have actually a very strong database group that understands how to use data.

The advantage we bring is that we know more about designing ads and designing offers that are appealing to consumers than anybody.

We've been doing this for 30 years. I think we understand more about media and about consumer communication.

*Overall, to what degree do you see CPG manufacturers continuing with traditional couponing efforts versus seeking out alternatives to promote their products to consumers?*

I've been with Valassis for 15 years and for 15 years CPGs have been looking for better and different alternatives. They specifically set aside budgets to test new vehicles and products. I'm sure they are going to continue to do that. I think it's a responsibility they have to find ways to move product.

With all that said, though, I would also tell you that when I came into this business 15 years ago, FSIs represented about 75% of all coupons distributed at the time. According to CMS today, FSIs represent about 90% of all coupons distributed. So I think that people are going to continue to look for a better mousetrap, but the reality is for CPG couponing, there is clearly no vehicle that is more efficient and effective than the FSI.

The other thing we're starting to see in the FSIs is just pure advertising. There's new research that measures the FSI against traditional magazines, and Sunday supplements and the FSI actually fares fairly well as just an advertising vehicle.

*One of the criticisms of some forms of electronic marketing has been that CPG manufacturers want to give offers to their competitors' loyal consumers. As we know, retailers prefer not to give competitive offers (with the exception of private label!) because consumers typically don't like it. If consumers are loyal to a brand, they want offers for that brand. Do you see any indication that manufacturers might be changing from the competitive offer strategy to one of rewarding their loyal customers?*

I think it all starts with the objective, and different brands have different objectives. If you have a high market share and market penetration, we see CPGs all the time wanting to reward their current customers. On the other hand, if you have a newer brand with a small market share, but you think you have a superior product, then you have to try to switch people and gain to gain trial.

CPGs are not likely to use some forms of electronic marketing to reward existing users, as a continuity program, because they are so expensive. You can buy an FSI at a substantially lower cost to reward existing users. You really have to look at it on a category by category basis.

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All the research says that you're just as likely to bring in the same percentage of new customers with an FSI as, for example, a coupon generated at the checkout would bring

So, the percentages are the same and since the absolute numbers of the FSI are bigger, you bring in more absolute users with an FSI

*The three companies you have purchased recently are all involved with the Internet. How do you see the future growth of the Internet and its effect on traditional grocery retailing?*

I think the Internet will have a real dramatic impact on grocery retailing. I hope that grocery retailers don't get behind the curve on this one, because it could be a tremendous loss of market share for them.

Again, I've have the WebVan prospectus here. They're planning to spend \$1 billion to build a business that is basically online grocery shopping. In the last six months, they've lost \$35 million dollars and haven't blinked at it. I read somewhere recently that they're planning on losing \$300 million in 2001! So they're investing heavily to try to steal shoppers from existing grocery retailers. And they're building warehouses in such a way that they can basically move volume equivalent to 18 stores. You can imagine them putting a warehouse in your market and you're one of 20 stores surrounding that warehouse. It could have a devastating effect on your business long term

Now I know today that maybe only two to five percent of shoppers are interested in buying their groceries online. But I really believe that as E-commerce becomes more prevalent with consumers, and consumers become more comfortable with ordering products, goods and services over the Internet, the more of an impact the Net could have on traditional grocery retailers. I think traditional retailers are in a tremendous position to win here. They have the customer base, they are local, they're in the community, and they're part of the community. If they embrace online shopping, it could be a huge opportunity for them. If they don't, I think it could be a huge loss in market share.

*Is Walassis planning on buying other companies in the future?*

Yes. Here's the overall picture. We'll generate this year about \$120 million in cash flow. We take \$60 million of that and put it into share repurchase, buying back shares in our own company.

The remaining \$60 million we basically allocate into new business development, acquisitions, etc. So we essentially begin the year with \$60 million to spend.

We want to find good companies that fit with what we want to do strategically, with good management teams, good products, and good future prospects. And if we can only spend \$20 million, then we'll put the remaining \$40 million into debt reduction.

However, we're comfortable with our current debt level and would just as soon spend the money on future growth opportunities. So yes, we definitely will be buying other companies in the future as we continue our Customers Acquisition and Retention (CARS) initiative.

*Thanks Al Schulz!*



Next month, 10,000 people from 26 states will converge in North Carolina for a private party featuring entertainment from the country group Alabama. **Welcome to Tobaccoville** is an event whose appeal to middle-American smokers has helped turn Doral cigarettes into the third-largest tobacco brand behind Philip Morris USA's Marlboro and Lorillard's Newport.

The R. J. Reynolds Tobacco Co. brand is the proud sponsor of Rally Across the Heartland. Although it has new bells and whistles this year, the loyalty promotion has been running full steam since 1994. In addition to the annual event, it includes a custom magazine, merchandise offers and focus groups stocked with brand loyalists—and a \$30 million brand ad campaign.

The promotion has helped boost market share for the brand to 6.6% at a time when the market for other value-priced cigarettes was flat. *Source: Advertising Age*

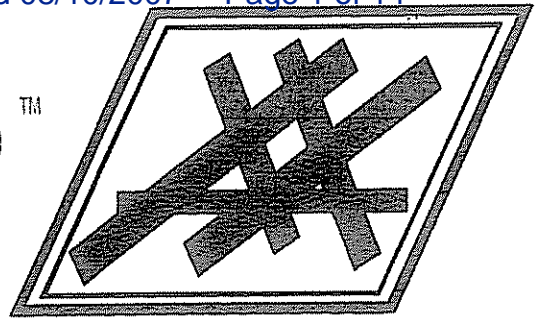
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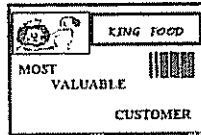
**Peapod.com expands nationally** - Internet grocer Peapod.com (PPOD) said it now offers nationwide sales and shipping of 7,000 non-perishable grocery, health and other household items. The service is called Peapod Packages. The company said the products are priced competitively with grocery stores.

Shipments are sent via United Parcel Service's ground shipping at a flat cost of \$7.95 per order.






# ELECTRONIC MARKETING IN REVIEW



New statistics for retailers and consumers will be presented at GEMCON 2000. We're also adding a study by Message Factors, Inc., about how to measure the *attitudes* of shoppers toward electronic marketing efforts.

## Other 1999 Statistics

Barry presented frequent shopper program statistics. As of the last GEMCON, there were close to 9,000 supermarkets in the U.S. with card-based programs, representing 30% of all supermarkets. The percentage of frequent shopper penetration represented 25% of the ACV in the U.S.



It's always really interesting to write this issue of In-Store. In some ways it's easier than the monthly version, because all I really have to do is look back through the last year's issues. In other ways it's more difficult, because I have to decide what deserves "re-mentioning," what was most important, what were the trends, and how much progress was made.

### Highlights In This Issue

Page

- ## • 1999 In Review

Happy 2000 !!

(continued on page 2)

January 2000

In-Store™

Catalina Marketing acquired DCI Cardmarketing, a 27 year old company based in Manasquan, NJ, with years of experience in providing loyalty marketing services. Catalina also bought CompuScan Marketing. CompuScan has provided the technology for the Checkout Prizes application throughout the Catalina network.

DataSage, Inc. made a deal with VNU to produce future versions of RMS's TargetExpert frequent shopper analysis software. The company also developed NetCustomer, an e-commerce individualization software solution that captures and analyzes all aspects of customer frequent shopper transaction information plus click-stream data.

DataSage also won an award from DM Review for "World Class Solutions for Business Intelligence and Data Warehousing," based upon work the company did at Dick's Supermarkets (Brodbeck Enterprises) in Platteville, WI. Contact Paul Cataldo at 781-942-3600 X 120

Informix Corporation announced that nine of the top 10 retail chains in the U.S. are Informix customers, and 20 of the top 25 supermarket chains use Informix technology. Contact Jaye Prosser 650-926-6316 or [jprosser@informix.com](mailto:jprosser@informix.com)

Klever Marketing announced a test with Ralph's. Paul Begum at 801-322-1221.

News America Marketing acquired a 30% interest in planet U, an internet-based coupon company with automatic in-store redemption; and a 22% interest in SoftCard Systems, an integration of at-shelf couponing with frequent shopper cards and smart card technology. News Corp. also purchased CCMI (Consumer Card Marketing), a frequent shopper database company.

During the year, Valassis acquired a majority interest in Independent Delivery Services, Relationship Marketing Group, and Save.com. IDS offers software and e-commerce solutions that allow supermarkets to implement full service consumer home-shopping programs. RMG is a direct-delivered shopping list of targeted offers that are automatically deducted at the point-of-sale, and Save.com is an Internet-based coupon delivery company. See [www.valassis.com](http://www.valassis.com)

We had an interesting interview in our November issue with Valassis' CEO, Al Schultz. The company sees a huge opportunity in developing loyalty marketing services for retailers. Valassis will help retailers use their frequent shopper data, provide home shopping software and deliver coupons direct to consumers over the Internet.

The company has \$60 million annually that it plans to spend on additional new business development, investments, and acquisitions.

xiNETix introduced its enhanced and renamed product, InfoPilot, at Markettechnics. The program offers everything from data capture and analysis to promotion delivery in one package. It can interface to virtually all POS systems, and provides optional electronic payment functions. 954-969-3080

xiNETix also made a deal with PFM Promotion Srl, in Italy, where PFM will offer loyalty program services to Italian retailers using the xiNETix InfoPilot System.

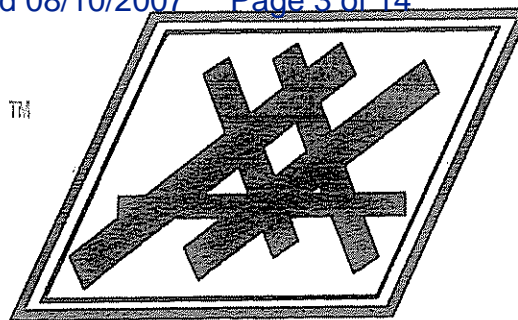
We saw several pay-at-the-pump loyalty interfaces at last year's Markettechnics. AutoGas, Gilbarco, and Wayne Dresser. Most of these are programs where people can get cents off per gallon of gasoline using either a frequent shopper card or a checkout-printed coupon. In December, NCR and Fuel Marketing Solutions announced a retail-solution partnership. Fuel Marketing provides a Fuel Rewards program that is currently being tested by Meijer. Developed for food stores that also sell gasoline, Fuel Rewards enables shoppers who purchase selected brand name products to receive discounts on fuel. Items that qualify for Fuel Rewards discounts are identified on the store shelves. The discounts are automatically calculated and awarded at checkout, and may be redeemed when shoppers make their fuel purchases. See [www.fuelrewards.com](http://www.fuelrewards.com).

My impression of frequent shopper progress in our industry is better than last year's. It seems that retailers (and the supporting vendors) have actually moved up a notch in their level of sophistication. That progress is offset, unfortunately, by an increase in privacy considerations. Both Wisconsin and California had privacy legislation this year. Both bills required supermarkets with club card programs to notify consumers about what the retailer might do with data. This could be worse. Requiring "opt-in" or "positive consent," would be worse; disallowing collection of data would be the ultimate worst. In 1999, consumers advocates made a lot of noise, and then quieted. (Remember Zelda?) Look for more privacy concerns in 2000.

As we all know, the retailers merged, and merged, and merged. This leaves us with a lot of questions about the future of CRM (customer relationship marketing) in some chains.

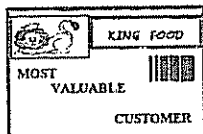


# In-Store™



The Newsletter of In-Store Marketing & Business  
February 2000

## ELECTRONIC MARKETING



xiNETix, Inc. announced that it has finalized an agreement to install its InfoPilot loyalty marketing system into the Whole Foods Market chain of stores.

For xiNETix, this announcement follows closely on the heels of other recent advances. In the last half of 1999 xiNETix saw continued growth with the installations of Scolari's Food and Drug Company in Nevada, Foodtown in New York City, Clark's Markets in Colorado, Top's and Servidio's Markets in California, and County Market in Minnesota.

xiNETix markets InfoPilot, an online, real-time system that delivers a myriad of promotional benefits to consumers at the point of sale. Using the data collected and reported by the InfoPilot system, retailers can distinguish themselves from their competition by promoting to a wide variety of customer segments using printed media, discounts and points.

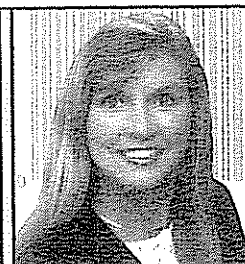
Whole Foods Market is a leading purveyor of natural foods and related healthcare products, that operates 101 natural foods supermarkets in 21 states plus the District of Columbia. Contact: Danny Portal, dportal@xinetix.com



Next month at Markettechnics, RMS will announce the release of MarketEXPERT XR 1.2, a new version of RMS's loyalty marketing software that runs on an NT Server to give direct access to customer-specific analytic reports as well as loyalty and targeting capabilities. XR includes an intelligent aggregator that automatically updates the XR tables from the retailer's data warehouse as new transaction data becomes available.

MarketEXPERT XR is fully integrated with XR's Customer Analyst and Product Analyst data mining modules and the TargetEXPERT XR real time electronic distribution tool. RMS developed the MarketEXPERT and TargetEXPERT modules. Customer Analyst and Product Analyst were co-developed with DataSage, which distributes software to the supermarket industry through RMS under an exclusive license arrangement.

The Product Analyst module includes price elasticity and product affinity models. The Customer Analyst module includes the Customer Sales Forecast, Customer Retention, Private Label and other predictive models. The customer scores created in Customer Analyst may be used in the MarketEXPERT module as the basis for target selection or loyalty programs. For example, "Gold" customers with low retention scores may be selected in a loyalty campaign that is defined and run in the MarketEXPERT module.



### DEAR READER:

GEMCON is coming up, (March 22-24, New Orleans) and we have quite an agenda this year. I'm looking forward to it. I'm doing a speech about international electronic marketing. Also, GEM award winners will be decided mid-February, and Mike Gorshe and I will have the privilege of once-again honoring the "best of the best" in electronic marketing.

We'll have the latest industry statistics, combined into one speech by Jane Perrin this year. Other speakers include people from PSK Foodtown, Basha's, Kraft, Nabisco, Blue Square Israel, Procter & Gamble, and SUPER-VALU. Hope to see you there!

(continued on page 2)

## Highlights In This Issue

- ♦ xiNetix Expands To Whole Foods
- ♦ Consumer Privacy Concerns
- ♦ Priceline Reviews
- ♦ CMS' 1999 Coupon Statistics

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More than half of employees surveyed online by Elron Software admit they shop on the Web while at work. Nearly one out of five says they visited retailers' Web sites "very" or "somewhat" frequently.

The concept of Internet access at work has good applicability for home shopping. Tests have been done, I understand, that show employee productivity increases if they can order groceries via the Internet for pickup on the way home.

Employees are also happier, and work longer, because they don't have the "odious" task of shopping in a physical grocery store. Grocery stores delivering to company lobbies at the end of the day are also part of this picture.

I read the following very interesting thing in Scan: The Data Capture Report ([www.corrypub.com](http://www.corrypub.com)):

"Austrian-born actress Heddy Lamarr, best known for her career on the silver screen, was also an inventor."

"She and a musician friend, George Antheil, created the concept of spread spectrum technology. Lamarr was married to armament manufacturer Fritz Mandl before she came to Hollywood. She used to review field tests on radio-controlled torpedo systems. Lamarr became interested in circumventing the jamming of radio signals that prevented the U.S. from launching torpedoes against its enemies."

"Her answer to the problem was a radio that jumped from frequency to frequency. The intended receiver of the signals would be in sync with the "hopping" frequencies. The enemies would only hear random noise. In 1997, Lamarr was honored by the Electronic Frontier Foundation for her role in creating spread spectrum technology."

You never know, do you?



The next big industry event is Markettechnics. We'll probably see most of you there!

In-Store™, the newsletter of in-store marketing and promotion, is a publication of Retail Systems Consulting, a leading supermarket technology consulting company. Editor Carlene Thissen, president of RSC since 1989, has more than 20 years of experience in the supermarket business. Call (941-352-4422), fax (941-352-4421), email ([rsc@webstop.com](mailto:rsc@webstop.com)) or send us news you'd like to see covered in In-Store™. 5091 Tamarind Ridge Drive, Naples, FL 34119. Check out our website at <http://rsc.webstop.com/rsc.html>.

TargetEXPERT XR is a real-time delivery system for addressable electronic communications with the retailer's POS, web site, in-store kiosks/printers, and/or voice response systems and is fully integrated with the MarketEXPERT module.

RMS will also announce the release of Purchase History Warehouse (PHW) software at Markettechnics. RMS developed the Purchase History Warehouse to support sites that do not have a data warehouse or do not have item level transaction data in their existing data warehouse. As a stand-alone product, the warehouse is a POS transaction database and component of the retailer's enterprise data warehouse. The PHW includes a normalizer that will convert POS transaction data into a standard format and a high performance loader that will populate a database and support loyalty marketing, category management, merchandising, store operation and other applications. The RMS normalizer can convert transaction data from virtually all retail POS systems. Contact Don Irion at 203-925-9031.



**Catalina Marketing Corporation and SmartTouch, Inc. announced a strategic agreement to link the loyalty programs of Catalina Marketing to the cardless, biometrically identified electronic payment programs of SmartTouch at retail point of sale.**

Through the strategic agreement, Catalina Marketing will become the exclusive preferred provider of loyalty programs offered in conjunction with the SmartTouch payment system. SmartTouch's patented technology and processes use biometric identification to enable consumer transactions without the use of credit or debit cards, checks or other "token"-based systems. The SmartTouch payment programs are designed to increase consumer convenience and security while reducing fraud through technology that uses digitized finger images as a form of customer identification.

Phil Gioia, President and CEO of SmartTouch, commented, "In keeping with Catalina's time-tested policies, our revolutionary electronic payment programs will be offered on a completely free and totally voluntary basis to consumers, while providing them with the ultimate in security and convenience with a single finger touch."

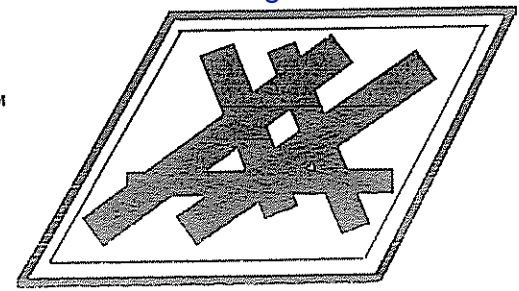
SmartTouch is now entering the second year of a successful field test program with a major U.S. credit card association and expects to implement several pilot programs with key national retailers within the next few months.



The U.S. Supreme Court recently ruled unanimously that Congress can protect motorists' privacy by barring states from selling the personal information on drivers' licenses. The justices rejected South Carolina's argument that the law violated states' rights.

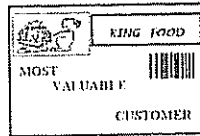


# In-Store<sup>TM</sup>



The Newsletter of In-Store Marketing & Business  
August 2000

## ELECTRONIC MARKETING



On August 14, the Rewards Machine, developed by SoftCARD Systems, Inc., will launch at 12 Furr's Supermarkets stores in Albuquerque, N M. The Rewards Machine combines smart card technology with supermarket loyalty programs and manufacturer discounts to reward customers and promoting loyalty. It is an electronic smart card encoder, attached to supermarket shelves, similar to existing paper coupon dispensers. When a customer inserts the supermarket's club or loyalty card, which will now be a smart card, the machine downloads electronic discounts to the memory chip on the card, which is capable of storing up to 200 discounts. After the customer has finished shopping, and is at check-out, coupon and promotion information is awarded through a POS Register Unit designed and built by SoftCARD systems. The loyalty card is inserted and the Register Unit reads the discounts that are on the consumer's card - deducting the appropriate amount as products are scanned at the cash register. Contact John Daniel, SoftCARD's VP and general counsel, at (706) 769-7000 or visit [www.softcardsystems.com](http://www.softcardsystems.com)



Catalina Marketing has filed a suit against Fuel Marketing Solutions of Dallas, Texas, based upon both patent infringement and unfair competition. The suit has been filed with the United States District Court, Central District of California in Los Angeles, and is based on infringement of three (3) United States Patents which were issued to George W. Off et al and had been Assigned to Catalina Marketing. The specific patents are: U S Pat Nos 4,910,672; 5,173,851; and 5,612,868.

"These patents cover the practice of delivering targeted incentives to consumers, based on purchases in-store, that can be used to buy gas outside the retail store," said Patty Melanson, EVP and CTO for Catalina Marketing. "Fuel Marketing Solutions infringes on these patents." Daniel D. Granger, CEO and Chairman of Catalina Marketing, added, "Catalina Marketing has an obligation to its shareholders, clients and employees to protect the value of its assets, which includes its rapidly expanding patent portfolio. Catalina Marketing recognizes the marketing value of this type of fuel purchase incentive program and is itself an active participant with retailers in this arena."



### DEAR READER:

It's a slow news month, which is normal for this time of year. We have eight years of experience with the newsletter, and every July or August I say the same thing.

We've added comments from Renee about retailers Internet sites (second page). I like her perspective.

There is news on GEMCON. We are combining GEMCON with the Internet Marketing Conference, and will hold the joint conference on August 22-24, 2001 (next year) at The Hyatt La Jolla in San Diego. We are already planning the agenda to make the conference the best one ever.

(continued on page 2)

### Highlights In This Issue

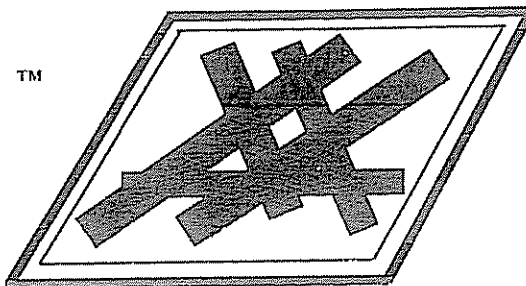
- ♦ Advertising Guidelines for Internet and Wireless
- ♦ Surfing Seniors Digital Consumer Survey
- ♦ Gas Pump Promotions - By Ten Square
- ♦ Dick's ISP/Portal Strategy

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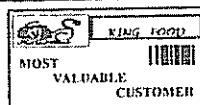
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# In-Store

The Newsletter of In-Store Marketing & Business  
September 2000



## ELECTRONIC MARKETING



**InterAct Electronic Marketing Inc.** is having discussions with several companies regarding the acquisition of all or substantially all of its assets in its U.S. operating business, including the sale or licensing of certain patents and other intellectual property. The Company has retained the investment banking firms of Wasserstein Perella and Phoenix Capital to assist in evaluating potential opportunities in this regard and will have no further comment until a transaction is contracted. The Company noted that the divestiture process is not intended to include its assets and operations in the United Kingdom and Continental Europe where it plans to continue to expand its operations

Founded in 1993, the InterAct e-Marketing Network delivers database targeted shopper incentives and advertising impressions via the Internet and some 3,000 server-based multimedia terminals (kiosks) that are electronically interfaced with the Point-of-Sale systems in more than 20 retail chains in the United States and Europe. The program is called Shoppers Perks.

InterAct's patented and proprietary technologies are commercially operating in more than 2,600 stores with several thousand additional stores under contract.

InterAct owns what it believes to be the most extensive intellectual property rights portfolio covering database targeted marketing and advertising delivered through in-store electronic technologies. The Company has invested more than \$200 million in its technologies and business development.



**Valassis and RMS announced the creation of a joint venture - Valassis Relationship Marketing System (VRMS).** This new

company comprises Relationship Marketing Group (RMG), which was purchased by Valassis last year, and RMS, formerly owned by RMS and VNU. Valassis and VNU will provide financing to VRMS. Al Schultz, ceo of Valassis said the new company "combines the technological expertise of RMS with the product and execution capabilities of RMG/Valassis."

VRMS will combine the CRM/loyalty marketing expertise and technology of RMS with the targeting and executional expertise of RMG and Valassis. VRMS will continue to develop, support, and sell MarketEXPERT and TargetEXPERT.

Sue Griffin, the current general manager for Customer Relationship Marketing at Valassis, is the new general manager of VRMS.



### DEAR READER:

We sure went from "no news" to "major news" in the last month. InterAct is out of business in the U.S., Valassis bought Prevision and RMS, Gamut made an alliance with Symbol Tech., and ICL laid off its U.S. retail group.

InterAct will become another addition to the Bleached Bones chapter of our book, "Target 2000." We make this book required reading for all our consulting clients, many of which are start-up third-party electronic marketing vendors. Their reaction is always the same - we don't want to end up in the Bleached Bones chapter!

(continued on page 2)

### Highlights In This Issue

- ♦ **INTERACT CLOSES U.S. BUSINESS**
- ♦ **VALASSIS BUYS RMS AND PREVISION**
- ♦ **GAMUT ALIGNS WITH SYMBOL TECH**

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September 2000

In-Store™

We understand the company's assets are on the selling block, including the installed base of systems (2,600 stores), patents, and patent licenses. Which of the "big vendors" is likely to be the purchaser?

With our executive search business, we've been helping a lot of the ex-Inter!Act folks find jobs.

They are populating the other electronic marketing companies with very qualified people.

The JICC Conference will be held on Sept 14-15 in Baltimore. I'll be doing the closing speech titled: "To Coupon or Not To Coupon in Cyberspace." This is a very tough issue, on which I have become a fence-walker.

I have between now and the 15th to come up with a firm opinion on print-at-home coupons! Hope to see you there!

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Sue's management team will include the senior managers of RMG and RMS, including John Schultz, Don Iron, and Jeff Carroll. All MarketEXPERT software license agreements have been assumed and will be honored by VRMS.

RMS is the frequent shopper database most widely used by supermarket retailers. RMG provides a targeted direct mail solution that uses frequent shopper data from participating retailers to deliver customer specific offers in the form of a shopping list (mailed or via email). The RMG mailing piece also contains targeted advertising messages. Approximately 2,000 U.S. food/grocery stores and dozens of CPG brands participate in the shopping list program on a regular basis.

"Although this transaction will be slightly dilutive in the short term, we anticipate great results from this partnership." Management plans to fund the transaction through a combination of cash and stock.

AMR Research valued the global CRM market at \$1.2 billion in 1997, and predicts the value will reach \$11.5 billion in 2002.

PreVision's client base includes retail, financial services, telecommunications, business-to-business and technology. Representative clients are Talbots, The Gap, Banana Republic, Toys "R" Us, Qwest, Monster.com, Imagitas (U.S. Postal Service), Stride Rite, Bose, Stop & Shop and Giant Eagle. Founded in 1993, PreVision's 1999 revenues were \$14 million and are expected to exceed \$25 million in 2000.



**Valassis has also purchased 80% of Prevision Marketing, Lincoln, Mass.,** a customer relationship marketing (CRM) agency. Deborah Pine, a principal and co-founder of PreVision Marketing said:

"Valassis is a natural partner for us because they not only bring the investment dollars needed to accelerate growth, but they also have an unmatched ability to nationally micro target newspaper inserts. We believe that our combined expertise in micro and customer-level targeting will create a new generation of CRM solutions resulting in a dramatic shift of dollars moving away from more traditional measured media."

"PreVision employs 150 talented professionals, who understand the importance of integrating data analysis, research, technology, and innovation to create comprehensive loyalty-building programs," said Al Schultz, president and CEO of Valassis.

"For Valassis, this transaction achieves a crucial aspect of our overall business strategy, which involves the formation of strategic alliances and acquisitions designed to accelerate growth," said Robert L. Recchia, EVP and CFO at Valassis.



**Nick Bishop has been named VP-consumer connections for Coca-Cola.**

He'll work with local marketing teams on ads, Internet, interactive TV, gaming, and wireless communications for Coke's one-to-one marketing initiatives.



**Vanguard Identification Systems' technology patents for "instant issue cards"—loyalty cards issued to customers at the point-of-purchase for immediate use—have been ruled by the US District Court for the Eastern District**

**of Pa., as valid and enforceable.** As a result of the ruling, competing loyalty card manufacturers will now be required to license technology directly from Vanguard. The judgment was entered against Stik/Strip Laminating and DocuSystems for patent infringement in the amount of \$2 million.



December 2000

In-Store™

Most of what I see is trying to put some facsimile of the physical store on the Internet. Let's keep thinking "beyond."

The article on RewardDollars is interesting, also, but they say something that I don't think I agree with. Please read the article, page one, to see what I'm talking about. RewardDollars said, "One of the problems that consumer packaged goods manufacturers have is that there is not enough purchase frequency, nor is there enough one-time purchase value to enable them to get a

meaningful reward to the consumer." It's not that CPG products don't have the purchase frequency or high ticket to allow delivery of meaningful rewards (although a few don't), but rather that CPGs don't want spend money on on-going incentives to people who would buy their products anyway.

If you do that, you might as well just lower the price and end up like coffee or tuna fish. Although I do see some intriguing possibilities for sweepstakes, games, etc. with the approach. I welcome any manufacturer comments on this.

Another year is drawing to a close, and I'm getting ready for the "year in review" that we will publish in January. Let's hope "Y2K" has a happy, prosperous ending, and that we actually get a President before the holidays. If those darn folks in Florida could only get their act together...

*Happy Holidays!*

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'Our differentiation is the ability to find product users or to go after new users with a currency designed specifically for that purpose and with a very sophisticated database and campaign management engine as part of the program,' Simpson says



An April study by Jupiter Communications, a market-research company, says **it costs \$30 per thousand to deliver an e-mail to existing customers, and \$500 per thousand for an offer that comes in the mail.** It takes three weeks and \$1,000 to create an e-mail marketing message; three months and \$20,000 to create a direct-mail piece with envelopes, letters and return cards.



## SCANNING

**Information Resources, announced it has entered into agreements with Dairy Management Inc. (DMI) and the International Dairy Foods Association (IDFA) to provide both organizations with scanner-based tracking information for cheese and milk for the next three years. IRI will supply scanner-based tracking information a IRI's CPGNetwork service, which provides rapid web-based information delivery.**



## COUPONS & E-COUPONS

**Comdex Fall 2000, RegiSoft introduced a wireless redemption system that uses the conventional barcode scanner.**

The system facilitates the redemption of electronic coupons stored on shoppers' Personal Digital Assistants (PDAs) and cell phones.

Upon receiving e-Coupons, shoppers bring them into stores on PDAs or cell phones appearing in the barcode format. This new twist on the use of a barcode scanner allows vendors to integrate RegiSoft's wireless e-Coupons without having to install any additional equipment. "Our e-Coupon system is already positioned as complementary to existing online and offline coupon systems," commented Gady Shlasky, RegiSoft's president and CEO, "given its interoperability with all Internet and cellular technologies. This recent innovation makes it easier for retailers to come aboard as the majority have barcode scanning infrastructure already in place."

RegiSoft is a developer of mobile and e-commerce applications. Founded in 1999, RegiSoft is a privately held company with representation in Europe and offices in United States and Israel. Last year, the company's flagship product, the World Trade Server, an Internet-based application that distributes, redeems and authenticates electronic coupons and tickets, received Best of Show finalists at Comdex Fall '99. For more information, visit [www.regisoft.com](http://www.regisoft.com).

**Valassis Communications presented the following in a November Investor Presentation:**



Valassis' 1999 Share of Revenues: FSI 74%, VIP (Valassis Impact Promotions) 15%; TMS (Sampling) 9%, Other 2%. FSIs are 92% of all coupons distributed. They have a mass reach of 59 million households.

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Valassis has a 50% share of the FSI market. Gross margins on this business are in the 40% range. Revenues were up 7.2% in 1999. Major components of Valassis' FSIs Cost of Goods Sold are: Printing 20 - 24%; Paper 38 - 44%; and Media 34 - 40%.

VIP. Valassis Impact Promotions, are specialty solo print promotions. The core business in these for Valassis is Food Service, where the top 75 players spend \$3.4 billion on marketing. The current size of the Valassis opportunity is \$400 - 500 million.

Selling offline media to online customers is expected to have revenues of approximately \$17 million in 2000. Internet plays are Save.com, of which Valassis owns 50%, and Coupons.com where Valassis owns 9%. Valassis also has a stake in IDS (Independent Delivery Services.) Customer Relationship Marketing includes Valassis Relationship Marketing Systems, which is a combination of RMG and RMS. VRMS is 75% owned by Valassis and 25% by VNU. VRMS now covers 7,500 stores of the approximately 10,000 supermarket stores with frequent shopper programs. PreVision Marketing is 80% owned by Valassis, and its estimated 2000 revenue is \$25 million, with a 30% ROI. Valassis sees the CRM market as a \$120 million revenue opportunity within five years.

## INTERNET



Andersen Consulting, in a recent study conducted with CIES, has found that **chief executive officers appear to be better informed and more optimistic than other employees about their companies e-commerce positions.** Across a variety of measures including potential opportunities and impact of e-commerce, senior management commitment, and number of employees working on e-commerce initiatives, the study found that CEOs overestimated their firms' performances compared to other employees, namely information technology directors and young, future senior managers. This gap between CEOs and the rest of their organization is consistent across retailers and manufacturers, and across international regions, the study reported. Source: SuperMarket News 10/23/00 Vol 48 # 43



Philip Morris Cos.' **Kraft Foods division joined forces with online exchange InterCommercial Markets Corp. to purchase North American green coffee online.**

Kraft cited the "benefits and ease of use" as among the keys to its decision to use the Web-based system. Procter & Gamble's Folgers and Millstone brands announced a similar partnership with InterCommercial in early October. Source: GMA SmartBrief

Florida-based **Fresh Del Monte Produce is offering a new online site that will sell produce directly to consumers.** Competitor Chiquita Brands International Inc. currently sells to wholesalers but has no direct-to-consumers site. The Cincinnati Enquirer (11/1)



**Target Corp. and Kmart Corp. have launched newly redesigned Web sites to up the ante with the world's largest retailer, Wal-Mart Stores Inc.** Target debuted its new site on Oct. 27, and Kmart officially debuted its Bluelight.com site this week. Source: GMA SmartBrief

**According to new research from the Gartner Group,** the average US Internet user is 41 years old. The research shows that the average user is gender neutral, has 2.81 children, earns US \$65,000 a year, and uses a PC at work. In addition to demographics such as age, e-tailers should consider the Internet expertise of online consumers. Web users with more than three years' experience are twice as likely to purchase online than users with a year's experience. Gartner's research also shows that the main incentives for users to buy online are convenience and the amount of time saved. Two-thirds of web shoppers do not regard online prices as cheaper than catalog or store prices. Gartner advised online retailers to offer their services on three platforms—PCs, mobile phones, and TV. Source: Nua Internet Surveys



**Procter and Gamble, in collaboration with Information Resources (IRI) tested three of its brands using IRI's e-SCAN testing service, to measure the effect of Internet banner advertising on offline sales.** The 16-week test results indicate that for planned purchase products no impact could be documented. However, for unplanned (impulse) purchase products, the sales effect was significant. The unplanned product purchase (Food and Beverage product category) gains in volume came primarily from increased buying by existing brand buyers. The study proves that banner advertising for impulse food products can have a positive effect on short-term sales volume. The study also reveals that the frequency with which consumers are exposed to ads is more important than the overall reach of the online campaign.

April 2001

In-Store™

"Statistics regarding the Retailers' ability to extract information from the Coupon and Extended barcodes has not improved much. Many still can't scan to the Family Code level, let alone the Extended barcode information."

"As always, Charlie Brown from NCH had a lot of good graphs & charts. The most important number I saw was that ALL of the Internet coupon companies combined still have not gotten above the 0.5% market share (year 2000). Consolidation in the Retail industry is another key stat, with projections that the Top 5 will control 60% of sales by 2005."



**Save.com LLC announced an agreement with Brightstreet to provide the operating system for powering secure, measurable promotions on the web.** Save.com, whose largest shareholder is Valassis, delivers coupons on line, which consumers print on their own printers. The coupons contain a proprietary Aztec code, which is tamper-proof from a consumer standpoint. Save.com, launched nationally in June 2000, currently has featured offers from over 50 leading consumer package goods companies. Coupon offers change each week, and past offers have included national brands such as General Mills Cereals, Heinz Pet Products, Keebler Cookies, Sara Lee Deli Products and L'Oreal Cosmetics. Save.com also provides coupons to affiliate sites. Save.com is associated with Valassis, Save.com's largest investor.

BrightStreet is the operating system for powering promotions-such as coupons, free samples, rebates, e-discounts, sweepstakes, and loyalty programs. The company's technology includes management and printing of secure, uniquely coded coupons at high resolution, as well as promotion management tools that are accessible from any web browser. BrightStreet also powers and provides content for a network of affiliated sites that serve as a massive delivery channel for targeted promotions across the Web.

Save.com will begin using the Brightstreet system on May 1, 2001. The new application will eliminate the need for the consumer to initially download the software, or use a "ticker" format to receive coupons.

The company expects this improvement will significantly increase consumer interest and participation. Additionally, use of the Brightstreet system should improve Save.com's ability to build a significant network of coupon pages throughout the Internet.

The licensing agreement calls for Brightstreet to be the exclusive coupon-serving technology of Save.com, and for Save.com to be the exclusive provider of cooperative consumer package goods coupon programs to Brightstreet. See [www.brightstreet.com](http://www.brightstreet.com) or call 408-777-7200.

## SCANNING



**The Federal Trade Commission said it unanimously approved a staff report on slotting fees that calls for the regulatory agency to continue to study grocery marketing practices and refrain from issuing slotting-allowance guidelines at the present time.** The report went on to recommend five areas in particular that need additional study in regard to whether they threaten a harm to competition: exclusive-dealing contracts; slotting allowances and pay-to-stay fees; issues of price discrimination; category management, and supermarket merger review.

## INTERNET



**Nabisco has launched a Web site, NabiscoGifts.com, that allows customers to order and send gift containers filled with their favorite Nabisco snacks.** "NabiscoGifts.com lets people send a unique gift with a simple click of the mouse," says Nabisco vp of e-business Wayne Shurts. "Who wouldn't want to receive a Giant Barnum's Animal Box filled to the brim with products like Oreos, LifeSavers, Ritz Bits and Planters nuts? Getting a Nabisco Gift is a truly fun and memorable experience." Source: RetailTech Online

**A Baltimore-based company called Advertising.com buys large blocks of Internet advertising from Web sites and then sells that space to big corporate customers, which pay to have their ads placed on sites.**



Using the new service, banner ads will flash coupons offering, for example, a buy-one, get-one-free deal from a pizza restaurant. Users can then print the coupon or have it sent to their mobile phone for presenting to the retailer, without having to leave the Web page they were viewing to visit the advertiser's site.



May 2001

In-Store™

Re: the following, I couldn't have said it better. (Actually, I wish I could have said it this well): "The irrational exuberance that saw any geek with an idea get millions (if not billions) of dollars from venture capitalists has been replaced with an irrational pessimism that makes it almost impossible for firms with solid prospects to eke out a penny from those same venture capitalists. The NASDAQ and Dow are trading at 30-month lows, and Internet companies are folding faster than a GAP employee. The online ad market is in complete disarray, and any company with an ad-based revenue

model is suspect." Source: "The Year of Marketing Dangerously" by Blas Nunez-Neto (posted 04/26/2001)

Personally, 3D technology on the Internet is my favorite new application. We will see a lot more of this, very quickly now. As business people, we will use it for successful promotions, and as consumers we will love it. Our world is changing rapidly, and new high-tech applications that some of us have been dreaming about for years are actually starting to happen! We're going to be covering a lot of it in GEMCON in August.

The GEMCON agenda is finalized

and included with this newsletter. For those of you with email subscriptions, we will send a separate PDF file.

We are really excited about this year's conference. We're moving quickly into the new world of the third millennium. It's going to be a really wild ride!

In-Store™, the newsletter of in-store marketing and promotion, is a publication of Retail Systems Consulting, a leading supermarket technology consulting company. Editor Carlene Thissen, president of RSC since 1989, has more than 20 years of experience in the supermarket business. Call (941-352-4422), fax (941-352-4421), email (retail@retailsys.com) or send us news you'd like to see covered in In-Store™. 5091 Tamarind Ridge Drive, Naples, FL 34119. Check out our website at: <http://www.retailsys.com>

The company's platform and algorithms turn that raw POS data input into daily, real-time, accounting quality information on product activity at each store, within the added context of promotional impact. Furthermore, ems services can forecast daily, store-level product inventory needs based on planned promotional activity. Contact [paula\\_mcdermott@emsinfo.com](mailto:paula_mcdermott@emsinfo.com)\*\*\*\*\*

**Albertson's will expand the Catalina Marketing Network into all of its food divisions,** increasing the reach of the Network by more than 870 stores. Albertson's currently has the Catalina Marketing Network installed in its Albertson's, Jewel, and Acme stores located in California, Nevada, Illinois and Philadelphia. "This technology allows Albertson's to target our customers on an individual and market basket level with special retail programs," said Pam Powell, group vp of marketing for Albertson's. "Additionally, the Catalina Marketing Network allows us to build volume and customer loyalty through both in-store and Internet-based consumer offers."



\*\*\*\*\*

**Valassis announced net sales of \$227.7 million for the first quarter ended March 31, 2001,** up 7.3% from the year ago quarter. Free-standing insert revenue was down 3.2%, to \$159.0 million for the first quarter. Management estimates that the effect of decreasing direct response pages, in addition to lower levels of e-commerce client participation, resulted in an approximate \$10 million revenue shortfall for the period versus the year ago.

Demand from its core client base of consumer package goods marketers, however, remained strong. There were no custom co-ops (single client FSI programs) produced in the first quarter 2001, versus one produced in the prior year period. Run-of-Press revenues were also down 6%, to \$4.7 million, but are expected to maintain revenue levels of \$20 - \$25 million for the year. Revenues for cluster-targeted products were \$54.6 million for the quarter, up 29.4% from the year ago, driven primarily by strong revenues in its sampling/advertising polybag programs. This highly targeted product grouping includes the company's fast-growing, technology-based businesses of customer relationship marketing and internet promotions. Consolidated revenues include PreVision Marketing and Promotion Watch consulting services. Non-consolidated revenues include Valassis Relationship Marketing Systems, Save.com, Coupons.com and Independent Delivery Services. One-to-one revenues for the first quarter were \$9.5 million.

Both costs and expenses were up during the quarter, due to media and printing inefficiencies resulting from fewer FSI direct response pages, and the addition of PreVision Marketing employees and sales personnel to SG&A expenses. Paper costs have stabilized, and will show more marked improvement in the second half of the year. Valassis subsidiaries and investments include Valassis Canada, PreVision Marketing, LLC, Independent Delivery Services, Inc., Save.com LLC, Coupons.com, and Valassis Relationship Marketing Systems, LLC. For additional information, see [www.valassis.com](http://www.valassis.com).

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The Catalina/Respond TV test will be retailer-specific because targeting through the television set isn't possible with today's technology. According to Williams, the loyalty card of the retailer is the key to the equation. "Once the consumer has entered a card number we can save it on our website, associated with the address of the WebTV box. If you can get that number then you can deliver the incentive electronically at the store." This can be an immediate discount taken off the order (*the stores that have implemented customer-specific targeting can do this, such as those that offer RMG or planet U*). For stores that do not have customer-specific targeting capabilities, Catalina can also deliver the incentives using its Checkout Coupon printer, like it does with WebBucks, Catalina's Internet promotion program. WebBucks are printed after the order for use on the next shopping trip. The company plans to call the RespondTV program incentives "ValuBucks."

When asked about the upcoming test, Eric explained: "There are only about 1.5 million WebTVs being used in the U.S., so the user base is limited, but at least we will be able to prove the concept. We will need a Catalina client who is running a commercial in a market area that has a retailer with a frequent shopper program, and sufficient WebTV distribution. The industry has been able to validate the effectiveness of interactive TV services, but hasn't been able to validate effectiveness with a specific retailer and a loyalty card tied in to targetability. Once we know the loyalty card number we can change the value and the content of offers, which obviously raises the relevance of the offers." *Thank you, Eric!*

**SoftCARD Systems has successfully completed the first consumer test of its SmartSource Rewards Machine, a smart card-based discount system.** "The consumer reception to using smart cards to collect paperless coupons from at-shelf dispensers exceeded our expectations," said Chris Mixson, president of SmartSource iGroup, the digital marketing division of News America Marketing, and partial backer of SoftCard. *Chris continued, taking a hit at one his biggest competitors for brand dollars:* "The most widely used targeting system today limits coupon distribution to consumers at checkout - after consumers have already made their purchase selections. By replacing existing frequent shopper cards with 'smart' frequent shopper cards, SoftCARD's technology will enable retailers and consumer packaged goods companies to influence consumer selection where it matters most - at the shelf, using coupons and through other types of promotional offers." *If the rumor on the street is true, (see Dear Reader), it will be interesting to see how News Corp. back-peddles on this position.*

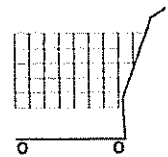
In addition to the at-shelf targeting machine, SoftCARD will continue to test additional products at Furr's Supermarkets, including technology for downloading coupons from the Internet and a collection of related devices that will enable electronic coupons to be distributed and redeemed via wireless phones, pagers and personal digital assistants. See [www.softcardsystems.com](http://www.softcardsystems.com).

*I'd say it's a good thing that the company has new technologies in mind. Everything I see tells me that smart cards in the U.S. are on the way out before they were ever in, and wireless will be the next big technology. See pages 4-6 for an overview*

## SCANNING & SCAN DATA

**As you have probably read, Wal-Mart has decided to stop providing data to IRI, ACNielsen, Audits & Surveys, Market Decisions, NPD, and Sports Trend Information.**

*According to an anonymous source within the syndicated data industry,* "It has been Wal-Mart's contention for some time that they do not receive enough value from the sale of data to offset their vulnerability from the exposure of their data. They stalled signing a census (all-store) agreement for several years (never did sign it) and have been threatening this for a period of time. They also claim that their people are spending too much time looking at data!! It makes you wonder just how smart these decision makers are. At this point, their size and momentum can make-up for strategic mistakes."



*Needless to say that this is bad news for the industry. The industry has gotten used to having multi-outlet data and both retailers & manufacturers are living by it. Anything less at the item level will completely change the way business decisions are approached...again!!*

*I am told there is a huge meeting set for early to mid June to appeal Wal-Mart's decision. At this meeting, all the research firms plus several BIG vendors will present their case to Wal-Mart. Both IRI & ACN will be preparing a more "robust" panel product, in an attempt to find something that will appeal to Wal-Mart and keep the other Mass Merchandisers happy.*



July 2001

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There is no better way to really learn about a topic than to give a speech about it!

On a separate note, we happen to have a lot of really excellent resumes in our executive recruiting files these days, so if anyone is looking for people who know the Electronic Marketing space, give us a call. We have people with backgrounds in CPG and retail sales, marketing, client service, data analysis, POS systems, information technology, CEOs, and even a few financial folks.

On another separate note, Shouldn't we be promoting more, not less, (which I understand is happening, just ask Catalina) in a tough economy?

I called American Promotional Products, the company that produces our GEM Awards, recently. I asked our sales rep, Randy, how his business was going, assuming his business was off, too. Randy said his business is good when things are going well, and even better when the economy is bad.

"It's obvious," he said. "When times are hard you need to promote and reward more, not less. So our business always increases."

It's obvious to him. What is our industry missing that Randy so clearly understands?

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**The Chokin Barcode System, developed by Hitachi Maxwell, is designed to allow retail stores to provide frequent shoppers programs (FSP) incentives to cell-phone users.** Registered FSP users can buy goods with a discount coupon simply by having a membership barcode displayed on their cellphones read with a POS scanner at the register. The system enables the retailers to gather customer purchasing logs in real time and analyze purchasing patterns in about 1/4 the time they typically spend to track the patterns. The retailers do not need to buy new equipment. The company has recently started storefront experiments with the system in collaboration with mass merchandisers in western Japan. Plans call for forming a consortium with food processing, cosmetics, and pharmaceutical manufacturers in the near future.

*I was very interested in this announcement, because I understood from everything I have been told that it is NOT possible for retail scanners to read a barcode from a cell phone screen. I like to keep up on scanner technology, and thought our readers might, too, so I asked Leib Lurie, of AirClic/Beeline Shopper. (Leib knows more about scanners than I ever hope to,) and he explained.*

*"This release is from Japan- where CCD scanners are the norm, not lasers like we use in the U.S. CCD scanners WILL scan LCD-displayed bar codes. CCD stands for Charge Coupled Device, a fancy name for digital image capture. It is the same technology used in most video and digital cameras. But CCD is being replaced by CMOS (Complementary Metal Oxide semiconductor) technology (cheaper, faster) essentially a group of small photocells that each capture a pixel - then software puts it together as one picture (or a barcode)." Thanks, Leib!*

**SoftCARD Systems has signed a licensing agreement with Welcome Real-time, a French-based supplier of software and marketing strategies for smart cards.** SoftCARD is the developer of the first at-shelf smart card-based electronic discount system. As a result of the Welcome agreement, SoftCARD will work to employ Welcome Real-time's XLSmart technology, which facilitates the performance of multiple applications on the smart card, including credit and debit transactions, multiple loyalty programs and SoftCARD's electronic coupon programs. "This agreement opens the door for more rapid acceptance of smart cards by consumers in the U.S., due to the fact that one card can perform multiple functions," said Ken Powell, president of SoftCARD Systems.

For example, a grocery store could partner with a local movie theater on a promotional program that gives shoppers 50 percent off an adult admission ticket price with a \$100 grocery purchase. The promotion information is stored on the shopper's loyalty card, and redeemed at the movie theater, using the same card. In addition, this card could function as a debit or credit card, providing the consumer with yet another reason to carry and use the card.

SoftCARD Systems is partially backed by News America Marketing, a division of News Corporation. SoftCARD has developed numerous coupon and promotion distribution techniques including distribution by the Rewards Machine, over the Internet (wired and wireless) into a consumer's home or retail outlet, through kiosks, TV remotes, pager systems and via other innovative distribution means. For more information, see [www.softcardsystems.com](http://www.softcardsystems.com).

August 2002

*In-Store*<sup>TM</sup>

**Valassis increased its ownership in Valassis Relationship Marketing Systems (VRMS),** its grocery loyalty marketing joint venture. The move took Valassis' former minority ownership in the venture up to 88%, resulting in the consolidation of the venture's financials into those of Valassis. The remaining 12% is owned by the VRMS management team and VNU, an international media and marketing research company, also the parent of Nielsen Media Research, Scarborough and Claritas, among others. The transaction took place as a result of Valassis exercising its option to buy out existing shareholders of Relationship Marketing Group (RMG), at the predetermined price of \$4.5 million. A minority position of RMG had been purchased by Valassis in October 1999 and later rolled into the VRMS venture.

Al Schultz, CEO of Valassis, said, "The increase in our ownership of VRMS demonstrates to our customers that we're highly committed to the one-to-one area of our business. We're very encouraged by the prospects we're seeing in the usage of grocery frequent shopper data, and feel that increasing our ownership will allow us to make excellent progress and key long-term, strategic decisions in this important area of marketing." *I believe Valassis is highly committed, different from some other companies who seem to 'dabble' in electronic marketing companies and then leave them by the wayside. VRMS is one of the sponsors of this year's GEMCON.*

\*\*\*\*\*

**Exxon Mobil will be testing its Speedpass payment system at Stop & Shop supermarkets (division of Ahold) beginning this fall.** The new feature lets retailers operate their own loyalty-card program within the Speedpass system, Exxon Mobil said. The Speedpass, introduced in 1997 at Mobil service stations, operates like a credit card or debit card. Customers point an electronic device at a countertop reader to make payments. This will let customers instantly pay for purchases and get Stop & Shop rewards and discounts without also having to swipe a loyalty card, Exxon Mobil said. Exxon Mobil is also testing the device at McDonald's restaurants in the Chicago area. It is also developing a watch with Timex that would include an imbedded transponder to let customers pay for goods by pointing their watch at an electronic reader. Exxon Mobil said there are more than 5.5 million Speedpass customers who use the wands at Exxon and Mobil stations nationwide.

# COUPONS

A recent article by Michael Y. Park, Fox News, "Do Coupons Still Make Cents?" contained a number of points that I thought would be interesting to discuss here.



The article cited numbers from study by NCH Marketing Services that said **the percentage of regular coupon users in America has dropped to 21 percent in 2001, from 22 percent in 2000 and 25 percent in 1999.** Only 51 percent of consumers agree that coupons "save them a lot of money." And, of the 239 billion coupons distributed by the consumer packaged goods industry in 2001, only 4 billion were redeemed – a significant 11 percent drop. *(That's about a 1.7% redemption rate.)* The article said the reason for the decline is a combination of marketing missteps and changing consumer habits. "Companies, for example, had begun relying more and more on multiple-purchase coupons, that require customers to buy more than one of a product to get the savings. That translated to fewer savings and more hassle for customers, who finally became fed up with the gimmick."

*I asked Charlie Brown, VP at NCH about this conclusion, since he was quoted in the original article. Charlie said that, as availability of coupons declines - with fewer printed and fewer events dropped - it is logical that fewer coupons would be redeemed. But it's not because consumers are fed up with anything, it's just that consumers have fewer coupons available to use when they shop.*

The article also talked about consumers being tired of FSIs. It quoted Phil Lempert, author of *Being the Shopper*. “Although the vibrant colors proved attractive to consumers at first — especially for food products — the public has tired of them.”

*You can read more about Phil at [www.supermarketguru.com](http://www.supermarketguru.com). The title "Supermarket Guru" is quite impressive. I like my title, too – I call myself the "Coupon Queen." It's better than the nickname I had at SuperValu, where they called me the "UPC Girl."*

*Lempert was quoted further about why consumers are tired of FSIs: "The problem with the inserts has been that it took a lot of other non-food products like princess dolls, address labels and checks, where it used to just be grocery products — and that's what people look for."*

# EXHIBIT B

Defendant's Expert Statement Of  
David Diamond  
August 6, 2007

**ASSIGNMENT**

1. I, David M Diamond, was retained by the law firm of Todd & Weld, LLP in the matter of Ann Raider and Robert Fireman vs. News America Marketing In-Store Inc. (Civil Action No. 05-11740-MLW) I was asked to review the case documentation and provide opinions relating to the CCMi business, the state of and prospects for that business at the time of the sale of the Company to News America Marketing, and the subsequent performance of the business through its integration into News America Marketing. The opinions presented in this report are my own, and are a result of my experiences in the marketing business and analyses I have conducted in connection with these businesses. I reserve the right to supplement and revise my opinions if additional information is provided.

**QUALIFICATIONS**

2. I am President of David Diamond Associates (DDA), an "S" corporation based in Pawling, New York. DDA provides marketing and strategic consulting services to the consumer products, retail and marketing services industries. DDA assignments typically address key strategic and operating issues within our clients. Assignments include facilitation of overall corporate strategy, analysis of potential businesses for expansion, development of plans to restage troubled businesses and the development of marketing plans for emerging business lines.
3. I have 24 years experience in the consumer goods industry. I began my career by spending 5 years, from 1983-1988, at Procter and Gamble, which is widely viewed as the leading CPG marketer. This was followed by a stint as VP of Strategic Planning at Oral Research Laboratories, a recently-formed company which successfully built the Plax brand from start-up to the successful sale of the company to Pfizer.
4. From 1988-2002, I worked in the marketing services industry at three different companies. At ActMedia, I served first as General Manager of the Promotion Division, and was subsequently promoted to Senior Vice President of New Product Development for the entire company. In this role, I supervised the creation and introduction of the Instant Coupon Machine which, within 2 years of its introduction, became the company's largest product. At Lamaze Publishing, I served as President and Chief Executive Officer. I led the company from the development of a license agreement through the introduction of a full line of magazines, sampling programs and video products. Our advertisers included all of the leading baby product manufacturers including Procter & Gamble, Johnson & Johnson, Gerber and Evenflo. From 1993-2002, I worked at



Catalina Marketing, where I served as President of Emerging Businesses. At Catalina, I helped grow the company from \$100MM in revenue on my arrival to \$500MM at my departure. I was responsible for growing the company through the development of new territories, new classes of trade, new uses for our database and new consumer touch points.

5. Since 2002, I have operated David Diamond Associates, providing strategic and marketing consulting as described above. A copy of my current resume is attached as Appendix A
6. In addition to my professional work, I also serve as an industry expert, writing a monthly opinion column for Progressive Grocer, a leading trade magazine, where I serve as a Contributing Editor, as well as making speeches and appearing on panels at a variety of industry events. I have presented at most of the major conferences in the industry, and have had my work published in a variety of venues. I am often quoted on industry matters in both trade and general business publications. A summary list of my publications is attached as Appendix B
7. Throughout my career, I have followed and participated in the development of the data base marketing industry, especially as it relates to the food, drug and mass retail channels. At ActMedia, when data base marketing was just a futuristic vision, I reviewed the businesses of a variety of start-up companies, including CCMI. This exploration led to a joint venture with S&H Green Points, where ActMedia served as the sales and marketing arm of that company, until they subsequently lost funding.
8. At Catalina Marketing, I was very involved in data base marketing, and had responsibility for the sales and marketing of our data base management products. In addition, I led our acquisition efforts, which included the purchase of DCI Card Marketing, a competitor of CCMI.
9. My educational background includes a B.A. from Carleton College in Northfield, MN in 1980, and an MBA with Honors from Columbia University in 1983.

#### **COMPENSATION**

10. I was engaged in this matter by Todd and Weld, LLP. The terms of my agreement with Todd and Weld is based on an hourly compensation of \$350. My anticipated billing for the creation of this report is \$7,000. I have no financial interest in the outcome of the case.

#### **DOCUMENTS REVIEWED**

11. Appendix C includes an index of the documents provided by counsel in the above captioned matter, which I have reviewed. These documents include both depositions taken in this case and other related materials. In addition to the documents listed, I have relied upon my professional knowledge and experience in this area.

### **THE MARKET FOR GROCERY FREQUENT SHOPPER PROGRAMS**

12. Beginning as early as 1989, supermarket retailers began to consider the implementation of Frequent Shopper Programs (FSPs). Because consumers shop at supermarkets close to twice weekly (1.7 times per week in recent reports), the data stream derived from a supermarket FSP is rich and actionable. It is rich because it tracks many products (the average supermarket has 40,000 different items) and many store visits, and it is actionable because the average consumer is 3 days away from his next trip to the supermarket.
13. Over the early 1990's, supermarket frequent shopper programs became a hot topic in the grocery industry, and they were adopted by a number of "thought leader" retailers. Simultaneously, a variety of companies began to focus on providing the tools retailers needed to field FSPs, including card issuance, data management and program management. Prominent among the companies who built businesses in this area were CCMI, Catalina Marketing, DCI and RMS. Each of these companies had their own twist on the subject, with DCI focused on cards, RMS focused on providing software to run on client's mainframes, CCMI focused on retailer programs and Catalina focused on manufacturer-funded programs. By 1993, it was clear that FSPs were reaching the "tipping point" among grocery retailers.
14. The decade 1993-2002 represented the glory days of the expansion of FSPs in the grocery channel. FSPs "crossed the chasm" and became part of mainstream supermarket marketing. According to the Newsletter "In Store", which served as a primary data source for the emerging industry, the number of stores fielding these programs soared. In 1993, I would estimate that the total number of stores fielding FSPs was less than 1500. In 1997, its first year of publication, In Store reported FSPs in 5800 stores. But in 2000, just 3 years later, this number had soared to 10,000 stores, almost doubling the market size. And in 2003, the number of participating stores had jumped to 13,000, representing 42% of all supermarket volume.
15. And the FSP market was growing beyond simple store growth. As more and more stores installed FSPs, national manufacturers took note of the powerful data sets which were being created, and wished to take advantage of their availability. Catalina's Checkout Direct program (which targets consumers based on FSP data) generated less than \$500,000 in revenue in 1993, but soared to \$19MM in revenue in 1996, \$44MM in revenue in 1998 and over \$70MM in revenue in 2001, my last full year with Catalina.
16. It is important to note that this growth covers the years before, during and after the News America acquisition of CCMI. Throughout this period the market was expanding dramatically, and any company which was properly focused on the business would have



been growing just by being present and competing at a reasonable level. It is said that a rising tide lifts all boats, and it is clear that from 1993-2002 the tide was rising for frequent shopper programs and the suppliers of these programs.

#### **CCMI PERFORMANCE 1993-2002**

17. While the market for FSPs was growing steadily from 1993 until 2002, CCMI's growth patterns were far less consistent. After entering the market in 1995, CCMI quickly grew to \$2.5MM in revenue in 1996, 7.9 MM in revenue in 1997 and 4.2 MM in revenue in 1998, according to an email from David DeVoe Jr., dated 5/14/99 (Deposition Exhibit 13). But once CCMI was purchased by News America (a deal which closed in August, 1999), things turned downhill quickly. Sales in the first two years after the merger were well below plan and below the sales level achieved in 1997. Specifically, year 1 revenue reached \$4.3MMM and year 2 revenue reached \$6.8MM, with both of these years well below the 1997 level. Mr. Fireman and Ms Raider were not paid earn-out bonuses in either of these years, despite the fact that the hurdles set for these earn-out bonuses appear to be based on quite reasonable growth.
18. Specifically, based on a review of an email from David DeVoe Jr. dated 7/9/99, the earn-out bonuses appear to be based on a plan agreed to as part of the purchase negotiations. This plan called for the payment of earn-out bonuses based on revenues of \$7.9MM in year 1 and \$21.6MM in year 2. It is my belief that the year 1 number, \$7.9MM, was a very reasonable target, one which could be achieved with modest effort. The year 2 target of \$21.6MM in revenue would be more difficult, but based on the rapid growth being experienced in the market for frequent shopper programs, it too was reasonably achievable.
19. A review of the case documentation indicates that problems began at CCMI almost immediately upon completion of the merger. As early as October 22, 1999, CCMI management was "gravely concerned" about achieving agreed-upon goals (Deposition Exhibit 22), and these concerns seemed to grow over the ensuing months.
20. The News America Marketing acquisition of CCMI appears to be part of a grand plan to enter the database and e-marketing fields. This included the acquisitions of not only CCMI, but also Softcard and Planet U. It appears from various emails and memos that the major concerns of News America Marketing were branding, company names and centralizing management (Deposition Exhibits 22, 24 and 26). While these concerns are legitimate, they do not include aggressively selling the CCMI products.
21. One area which was of significant concern was sales responsibility for CCMI. News America moved quickly to make the News America sales force responsible for the CCMI product line, but I believe they did not provide the needed tools, training or incentives for that sales force to succeed in closing deals with retailers or manufacturers. CCMI found

itself to be a company without a sales force. And not surprisingly, revenues suffered greatly.

22. Additionally, after the acquisition, News America curtailed CCMI's marketing efforts. As a competitor at the time, I was surprised that post-acquisition, News America cut back CCMI participation in trade shows, public appearances and public relations. At Catalina, we were bracing for a marketing initiative from News America, but what we saw was the exact opposite. As soon as the merger was completed, CCMI withdrew from the public eye.

### **COMPETITIVE PERFORMANCE 1993-2003**

23. While CCMI began a significant downturn under News America management, CCMI's competitors continued to flourish. As described above, Catalina's manufacturer revenue derived from FSP programs grew from \$6MM in 1996 to \$15MM in 1998 and \$28MM in 2001. Simultaneously, in 1996, Catalina began to focus on retailer revenue as well, and though organic growth as well as the acquisition of DCI, grew retailer revenue from under \$1MM in 1996 to \$12MM in 1999 and \$31MM in 2001. RMS also continued to grow its installed base each year (revenue details are unavailable), through its sale of a minority interest to Valassis Communications in early 1999.
24. The market was growing quickly throughout the period 1993-2002, including the period 1999-2002, after the News America acquisition of CCMI. All of the various suppliers were growing as well, with the exception of CCMI after the News America acquisition. Clearly, the issue was with News America's management of CCMI, not with the market.
25. What is most remarkable is that while there were, as discussed above, four different competitors with four different strategic foci (CCMI -- Retailer Programs, Catalina -- Manufacturer Programs, RMS -- Software and DCI -- Cards), all of these competitors were able to thrive and grow, until CCMI faltered upon being acquired by News America.

### **CONCLUSIONS**

26. CCMI had built a growing, profitable business before its sale to News America in 1999. CCMI had signed up major retailers, delivered programs to those retailers and both renewed contracts with existing retailers and added contracts with new retailers. CCMI was successfully growing revenue and was in its way to profitability.
27. Similarly, CCMI's competitors, RMS, DCI and Catalina, had built good businesses in the period 1993-1999. All three of these companies had seen modest investments in database marketing pay big dividends through the creation of vibrant, fast-growing businesses.

28. During the period 1999-2002, these trends continued for the overall market, for RMS with a passive investment from Valassis, and for the combined DCI/Catalina. The market did not falter, and the competitors did not falter. Only CCMI faltered. And the inevitable conclusion is that CCMI faltered because it was acquired by News America. News America mandated changes in the way CCMI was run. The only variable which changed between 1993-98 and 1999-2002 was the ownership of CCMI. And the only outcome which changed during that period was CCMI business results, so the evidence seems clear.
29. I believe it is highly probable that CCMI would have continued to grow had its attention not been taken away from the business and put on, first, the sale to News America and, second, the issues of working as a part of News America. News America made the classic mistake integrating CCMI by subjugating all of the things which made it successful, and in doing so, News America destroyed the business.
30. I also believe it is highly likely that if CCMI was a stand-alone entity from 1999-2001, CCMI would have achieved revenue of \$7.9 million in year 1. And I believe that it is probable that CCMI would have achieved revenue of \$21.6 million in year 2. Furthermore, I am comfortable that these numbers would have been achieved if the acquisition had been made, and News America had decided to simply leave CCMI alone during a transition period.
31. It was by demanding that CCMI integrate with News America immediately, by designating News America's sales force as CCMI's sales force and by significantly reducing marketing and trade relations efforts that News America set the stage for the rapid decline of the CCMI business. Without News America, or even with News America as a non-intrusive owner, CCMI should have been able to keep pace with the market and continue to grow its business.

Respectfully Submitted:

  
\_\_\_\_\_  
David Diamond

Appendix A - Resume

**DAVID DIAMOND**

205 EAST 22<sup>ND</sup> STREET  
NEW YORK, NY 10010

(646) 742-1373  
david@ddiamondassociates.com

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**Summary:**

Senior change agent with demonstrated leadership and business-building skills across a broad range of growth-oriented environments. Classical marketing/management training at Procter and Gamble. Subsequent experience includes direct management of all functional areas, as well as experience managing a portfolio of operating companies. Produce outstanding results in all areas by first creating successful objectives and strategies and then leading the organization to executional excellence. Consistently grown revenue, market share and profitability across a wide range of operating environments.

**Professional Experience:**

**DAVID DIAMOND ASSOCIATES, NEW YORK, NY** (1993-1996, 2002-PRESENT)

Consulting practice focused on marketing and strategic planning

**PRESIDENT**

Own and operate a consulting practice which provides marketing and strategic services to a variety of consumer packaged goods marketers, retailers, marketing services companies and others.

Assignments include:

- **Checkpoint Systems:** Developed a revised strategic plan for a leading retail security company, with special focus on integrating emerging RFID technology into an existing product portfolio.
- **WPP Group:** Developed a business plan for the first advertising agency entirely focused on providing direct-to-consumer advertising for Rx products. Retained operating responsibility for the unit for its first two years on a consulting basis. Provided strategic guidance for a variety of other WPP units.
- **Progressive Grocer:** Serve as a Contributing Editor of a leading trade magazine by writing a monthly opinion column on issues facing the food retailing industry
- **Iomega Corporation:** Developed a revised strategy and structure for a leading digital storage company as it makes the transition from a proprietary hardware model to an open systems environment.
- **Neuro-Insight:** Helped develop a marketing and strategic plan for a start-up company which has developed a proprietary methodology for using brain-scanning technologies to understand the effectiveness of video programming.
- **Gridley And Company:** Developed marketing plan for a niche investment bank focused on the marketing services and payments processing industries.
- **Georgia Pacific Corporation:** Led and managed a creative development exercise focused on understanding the facial tissue market and developing breakthrough products to serve this market.
- **Sweet Mart Development Corporation:** Helped develop go-to-market strategy for start-up targeted marketing company in China. Help client sign retailers, sell to manufacturers and create a business from scratch in a fast growing market.

- **Oxford Management Corporation:** Acted as in-house marketing resource for mid-sized venture capital company. Developed solutions for marketing, strategy, public relations and research issues affecting owned and managed companies.
- **Museum of Modern Art Book Store:** Developed product portfolio to accompany the blockbuster "Dada: Paris, Berlin, Hanover, New York" show. Helped curatorial and merchandising groups develop products which captured the spirit of Dada, while generating significant sales.
- **Precision Prospects:** Helped develop strategy and provided ongoing assistance to an Internet-based lead-generation company focused on the financial services industry.

**CATALINA MARKETING CORPORATION, ST. PETERSBURG, FL (1996-2002)**

Leading targeted marketing company in the CPG/Supermarket/Pharmaceutical arena

**President, Emerging Businesses and Chief Vision Officer**

Responsible for overall strategic direction of NYSE-listed targeted marketing leader. Member of 5-person office of the Chairman. Responsible for line management of 5 new and/or developing businesses as well as oversight of Strategic Planning, R&D, Marketing, Acquisitions, Investor Relations, Strategic Investments, and Product Development. Managed over 400 professionals. Specific achievements include:

- Creation and oversight of the company's entry into the market research area including a joint venture with ACNielsen in behavioral research, the acquisitions of Alliance Research and Market Intelligence in attitudinal research, and the creation of a portfolio of integrated attitudinal/behavioral research products. Revenues reached over \$20MM annually.
- Oversight of the company's Japanese business, which is now established in 3 of the top 5 retailers in Japan, and also includes Japan's second-largest outdoor advertising company. Revenues increased an average of 28% annually over 3 years to over \$30MM annually.
- Responsibility for expansion of Catalina's core business into other classes of trade, which has included expansion into hypermarkets (Fred Meyer, etc.), pet superstores (PetSmart), mass merchandisers (test in Kmart), Fast Food (test in McDonald's), Restaurants (testing in Bennigan's and Pizzeria Uno), Hotels (test at Cendant), and Liquor Stores.
- Development of the Company's entry into the direct-mail business, including the development of a test product and the subsequent acquisition of an outside direct-mail supplier to provide rapid expansion of that product. Revenues from direct mail exceeded \$50MM.
- Creation of an acquisition strategy for the company that resulted in 7 successful acquisitions over 4 years. These acquisitions added over \$40MM to the top line while providing accretion to earnings.
- Creation of a corporate R&D function, which has focused efforts on new technology adoption and use. Developed over 15 new products or applications. This effort has included an aggressive intellectual property program, which has resulted in the issuance of over 50 new patents.
- Oversight of the company's strategy, marketing, PR and investor relations efforts which, combined, reposition the company as a multi-touch-point, multi-channel "behavior-based marketing" company, rather than a targeted CPG couponer.

**LAMAZE PUBLISHING COMPANY, WILTON, CT (1991-1993)**

Publisher of magazines, video and sampling products to expectant and new parents in Lamaze classes.

**President and Chief Executive Officer**

Provided leadership and direction to this \$5 million niche marketing organization with blue chip clients that include Procter & Gamble, Johnson & Johnson, Unilever, Fisher-Price, Kodak and Metropolitan Life. Reported to Board of Directors with direct responsibility for all staff members.



- Created a strategic vision, restructured the organization and built the customer base to successfully turn around the company from a loss position to 25% profit margin while increasing revenue 75% over 2 years.
- Recruited, trained and developed an experienced organization to provide sales/marketing superiority and quality execution.
- Reduced operating expenses 30% by eliminating overhead and employing new manufacturing and distribution techniques.
- Developed and implemented a successful five-year strategic plan that established company as the pre-natal market leader with new research approaches and updated sales materials.
- Conceived, developed and introduced highly successful "LamazeBaby" post-natal sequel magazine. Built 1.2 million in circulation and sold advertising to 18 clients in first year.

**ACTMEDIA, INC., NORWALK, CT**

(1989-1991)

Leading provider of in-store marketing services.

Senior Vice President, Strategic Planning and Development (1/90-5/91)

Responsible for strategic direction and new business activities including new product development, joint ventures and acquisitions.

- Developed and led successful pilot test and rollout of "Instant Coupon Machine," a device that delivers coupons to the consumer at the shelf. The ICM became the company's most successful product, generating revenues of over \$100 million in over 25,000 stores.
- Created "Mass Impact," a cooperative mass merchandiser couponing program. Product was successfully tested in 10 Wal-Mart stores and expanded to six of the top eight mass merchandisers in 1992. This activity led to the roll out of a variety of products in this class of trade.
- Led implementation of "Checkout Channel," a CNN Headline News delivery system placed at supermarket checkouts. Project's success resulted in its sale to Turner Broadcasting.

Senior Vice President and General Manager, Promotion Division (1/89-1/90)

Responsible for all operations of \$60 million Promotion Division providing couponing, sampling and demonstrations to 18,000 supermarkets nationwide. Managed 50-member Sales, Marketing and Operations staff, including 5 Vice Presidents of Sales and a Vice President of Marketing. Client base consisted of major consumer packaged goods organizations and supermarket retailers.

- Designed and implemented new sales and marketing strategies that resulted in a 22% revenue increase and the division's first profitable year. Efforts resulted in 1990 revenues and profits increasing an additional 18% and 85%, respectively.

**ORAL RESEARCH LABORATORIES, NEW YORK, NY**

(1988-1989)

Vice President and Director of Strategic Planning

Responsible for strategic direction and planning for a start-up OTC dental products company. Contributed to the emergence of Plax as one of the most successful new products of the 80's. Sales topped \$100 million by Year III. Responsible for all management systems and volume/cost forecasting. Assisted in company's sale to Pfizer, Inc. for \$280 million.

**THE PROCTER & GAMBLE COMPANY, CINCINNATI, OH**  
Packaged Soap & Detergent Division

(1983-1988)

**Brand Manager – Ivory Snow, New York, NY**

Led development and execution of strategy, advertising and promotion plans for this \$40 million brand in conjunction with Regional Marketing Manager responsibilities. Managed one Assistant Brand Manager and remained in New York as first Brand Manager located outside of Cincinnati headquarters.

- Reversed a 7-year business decline by completely revising marketing program and developing an exclusively targeted approach that resulted in +2% share growth.
- Developed entire new advertising copy approach, which resulted in highest ever recall scores for the brand.
- Created new targeted promotional programs which doubled response rates versus previous programs.

**Regional Marketing Manager – Eastern Division, New York, NY**

Newly created position after personal reasons required relocation to New York. Reported to Division Sales Manager and Associate Advertising Manager with responsibility for assisting Eastern Division business turnaround. Managed staff of 2 with responsibility for developing and implementing marketing plans for 14 brands.

- Worked closely with Sales and Marketing Departments to create new promotions and specially targeted programs for the Eastern trade and consumer that increased volume 12%.
- Designed and implemented new approach to trade spending, which built volume +6%.
- Doubled Liquid Tide share and volume through successful reintroduction of brand to New York Hispanic market.
- Developed successful local sports tie-ins, which doubled promotional response rate and resulted in significant incremental merchandising.

**Assistant Brand Manager – Tide Detergent, Cincinnati, OH**

Coordinated manufacturing and sales elements for national expansion of Liquid Tide, the most successful new detergent brand in 30 years. Exceeded introductory volume objectives +53%. Developed Year II brand marketing plans which led to +15% growth and category leadership. Assisted in the national introduction of Unscented Tide, a major new line extension.

**Education:** COLUMBIA UNIVERSITY GRADUATE SCHOOL OF BUSINESS, NEW YORK, NY  
M.B.A., Accounting and Finance, May 1983  
Dean's List; Beta Gamma Sigma; Professional Accounting Prize; Teaching Assistant in the Accounting Department.

CARLETON COLLEGE, NORTHFIELD, MN  
B.A., English Literature, June 1980  
President – Debate Society; Student Member – College Council; Chairman – Social Co-Op.

**Board Memberships:**

Carleton College – a top-tier small liberal arts college  
ARChive of Contemporary Music - an organization devoted to collecting popular sound recordings.  
Storm King Council – Provides support for a leading contemporary sculpture park

**Personal:** Married; one child



## Appendix B – Publication Summary:

My publications fall into three broad groupings, Trade Articles, Progressive Grocer Articles and Internal White Papers. This provides a summary of each:

### Trade Articles:

Over the past 15 years, I have been asked to provide articles and commentary by a variety of Marketing Industry trade magazines. Sometimes this has taken the form of formal, by-line article, but most often it takes the form of quotes. My work and words have appeared in a variety of trade magazines including Ad Week, Promo, Direct, Supermarket News and Progressive Grocer.

### Progressive Grocer Columns

Since November, 2004, I have contributed opinion pieces to Progressive Grocer, a leading magazine in the Supermarket and Packaged Goods Industries. After providing these pieces on an *ad hoc* basis, I became a Contributing Editor of the Magazine in May of 2006, and now provide an opinion column, known as “David Diamond’s Wake-Up Call” each month. Topics covered in these articles include:

The Rise of User-Generated Content  
Innovation from the Middle Market  
Where are we headed in 2007?  
Christmas at Meijer  
Taking Private Label to the Next Level  
The Smartest Food Retailer I Know  
Make-up and Maid’s Uniforms – a Trip to Ricky’s  
Product Placement Grows Up  
Good Food and Better Food  
The Future of RFID Tags  
The Evolution of Packaging  
Leveraging the Boom in Licensing  
Hidden Opportunities in HBA and GM  
And a variety of other topics

### Internal White Papers:

I have often been called upon, both as an employee and as a consultant, to draft formal White Papers on specific subjects for specific clients. These White Papers have become the basis for advertising or promotional campaigns, have been used as part of new business evaluations and have been used to manage clients and potential clients. Topics covered by these Papers include:

Internet Couponing  
Integration of Internet Couponing with other Internet Content  
The viability of expansion into specific geographies

The Management of Intellectual Property as a business matter  
The History of Kiosks in Supermarkets  
Proper privacy protection for Frequent Shopper Programs  
Proper Refund Fulfillment Practices  
The intersection of Security and Merchandising in the Retail environment  
Mass marketing in China  
Private Label category loyalty  
And many other topics

Appendix C --- Documents Reviewed

1. Deposition transcript of Henri Lellouche with Exhibits;
2. Deposition transcript of David DeVoe, Jr. with Exhibits;
3. Deposition transcript of Ann Raider;
4. Deposition transcript of Leslie Charm;
5. Deposition transcript of Robert Fireman;
6. Deposition transcript of Robert Coughlin with Exhibits;
7. Deposition transcript of Paul V. Carlucci with Exhibits;
8. Deposition transcript of Martin Garofalo with Exhibits;
9. Deposition transcript of Christopher Mixson with Exhibits;
10. Email dated July 9, 2009, document number NAM 01391-92;
11. Document entitled "Deal Comparison", document number FR4909;
12. FSP Store counts – excerpted from "In Store" by Carlene Thissen